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TRADE AND INDUSTRIAL POLICIES: PAST PERFORMANCE AND FUTURE PROSPECTS *

* This report is based on six case studies (Argentina, Brazil, Chile, Indonesia, Malaysia and the Republic of Korea) undertaken within the framework of the project, "Comparative study of development strategies of selected East-Asian and Latin American countries with special reference to trade and industrial policies under the new international trading system", financed by the "Japan Fund for International Cooperation for Development". This document was prepared by Mikio Kuwayama, staff member of the International Trade Unit of the International Trade, Finance and Transport Division of the United Nations Economic Commission fore Latin America and the Caribbean (ECLAC).

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ABSTRACT

During the course of 1997 and 1998, the Economic Commission for Latin America and the Caribbean (ECLAC) carried out the project "Comparative study of development strategies of selected East-Asian and Latin American countries with special reference to trade and industrial policies under the new international trading system". The project was designed to extract from the experiences of both regions the essence of the appropriate public policy in industrial and trade development and to identify its new role and available instruments, in conformity with the post-Uruguay Round trade regime. For this purpose, six comparative case studies (Indonesia, the Republic of Korea, Malaysia, Argentina, Brazil and Chile) were undertaken. This paper summarizes the major conclusions of the six studies and explores possible areas for future policy.

It is generally assumed that as a result of the Uruguay Round and other international trade accords, developing countries will face more stringent restrictions on their ability to conduct selective trade and industrial policies. On the other hand, the conclusions of these six papers indicate that the room for manoeuvre has by no means disappeared, and a number of policies can be still exploited by developing countries for industrial and trade pursuits, which conform to the commitments of the Round and other trade agreements.

INTRODUCTION

During the course of 1997 and 1998, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) undertook the project, "Comparative study of development strategies of selected East-Asian and Latin American countries with special reference to trade and industrial policies under the new international trading system", funded by the Japan Fund for International Cooperation for Development. The objective of the project was to extract from the experiences of both regions the essence of appropriate public policy in industrial and trade development and to identify its new role and available instruments, in conformity with the post Uruguay Round trade regime. For this purpose, six comparative case studies on past and future trade and industrial policies in Asia and the Pacific (Indonesia, the Republic of Korea and Malaysia) and Latin America (Brazil, Argentina and Chile) were undertaken.[1] The selection of the countries was based on the level of industrial development, market size and corporate and state culture. This paper summarizes the major conclusions of the six studies and explores possible areas for future policy that can be derived from those studies.

As a result of ongoing globalization, the Uruguay Round and other regional accords,developing countries are thought to be facing considerably more stringent restrictions on their ability to conduct selective trade and industrial policies. Nonetheless, the six case studies suggest that the room for manoeuvre has by no means disappeared and that developing countries can still exploit a number of industrial and trade policies, which conform to the commitments of the Uruguay Round and other trade agreements.

This summary paper consists of six chapters. Chapter I provides the background and justification of the project, which serves as an introductory note for the endogenous-oriented industrial and trade policies explored in chapter II. Chapter III summarizes distinct assessments of past industrial and trade policies. Chapter IV reviews new constraints and room for manoeuvre in trade and industrial policies under the new international trade regime, not only in those mechanisms that are considered pre-competitive (e.g., fiscal, monetary and exchange rate policies, business facilitation, etc.), but also in more conflictive areas such as export subsidies, counter-measures on imports and exports, trade-related investment measures (TRIMs), trade-related aspects of intellectual property rights (TRIPs), services and agriculture. In chapter V, various regional integration schemes are examined to see how they can serve to strengthen the multilateral World Trade Organization (WTO) framework. The paper ends with a short note on institutions appropriate for effective industrial and trade policy implementation.

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[1] The studies refer to Nasution (1998), Yeom (1998), Mahani (1998), Delorme Prado (1998), Casaburi (1997) and Agosin (1997), respectively.

I. BACKGROUND AND JUSTIFICATION OF THE PROJECT

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) shares the view commonly expressed in recent literature on growth and trade that the propelling force of development must be the dynamism and competitiveness of the national economy. The endogenous nature of knowledge absorption generates dynamic economic growth, which later translates into a rapid and diversifying export sector. This development focus is different from the usual export-led growth model, which emphasizes trade policy reform as the basis for allowing the economy to respond to external demand. Structural transformation stimulated by national efforts has a strong influence on the evolution of comparative advantage and is a motor of economic growth; it should not, however, be considered the automatic by-product of an outward-oriented strategy and sound macroeconomic policies.

When trade expansion is viewed from this endogenous orientation, it becomes evident that neither the reduction of the levels of tariff and non-tariff barriers and of their dispersion nor the elimination of anti-export biases by appropriate exchange rate policies is sufficient to promote economic growth. As Rodrik puts it (1992, p. 103), "Trade policy plays a rather asymmetric role in development: an abysmal trade policy can perhaps drive a country into economic ruin; but good trade policy cannot make a poor country rich. At its best, trade policy provides an enabling environment for development". Hence, industries to sustain the economy of the next generation (i.e., dynamic industrial and trade sectors) will not emerge automatically from the adjustment process or through the activities of the private sector only. Trade liberalization must be accompanied by a set of policies for the economy as a whole to achieve international competitiveness, based on internal structural upgrading.

The case for this development thinking is strengthened by the results of economic reforms in Latin America over the past two decades. The countries in the region have pursued the goals of macroeconomic stabilization through fiscal discipline, trade liberalization, financial deregulation, the improved functioning of market mechanisms and greater reliance on private investment. For the majority of the countries, these reforms have resulted in moderate growth rates that are inferior to historical performance and unsatisfactory with regard to technological progress, job creation and social equity. The large-scale return of capital flows to Latin America that began in the late 1980s has not led to a significant improvement in investment performance (ECLAC,

1996)[2]. Also, macroeconomic stabilization and structural reforms have usually reinforced "optimum" allocation of resources under the existing industrial and trade structures and technological level of Latin American countries, which specialize in a limited number of primary products and light industry of low value-added.

Until very recently, the governments of East Asia were believed to have successfully intervened to tackle a series of closely interrelated and mutually reinforcing market failures. These interventions seem to have triggered an accelerated pace of capital accumulation, technical progress, structural change and, hence, economic growth, beyond what would have been possible from laissez-faire. Latin America therefore looked to East Asia for lessons on its know-how. More recently, however, several factors have reduced the applicability of selective industrial and trade policies.

First, globalization is exposing national firms to severe internal and external competition, and the norms of competition are increasingly determined by multinational firms. Market contestability is increasingly called for in many economic spheres, not only in goods and services but also in finance within and among countries, developed and developing alike. As recent occurrences in East Asia and Latin America testify, deregulated financial markets and the resulting increases in financial flows tend to reduce the government's autonomy in steering the course of development via selective policies.

Second, the new disciplines accepted by countries at multilateral, plurilateral, subregional, regional and hemispheric levels (the Uruguay Round in particular) will not allow developing countries to employ selective industrial and trade policies of such scope and intensity as practiced in East Asia in the past. As a result of the WTO agreements and other international accords whose commitments sometimes go beyond the scope of those of the WTO (i.e., WTO-Plus), developing countries will probably face considerably more stringent restrictions on their ability to conduct development-oriented trade and industrial policies.

Third, the envisaged launching of a new "millennium round" of global-trade negotiations could impose more restrictions even while the implementation of the Uruguay Round (UR) is far from being completed. And even without a millennium round, WTO members are committed to starting talks before 2000 on intellectual property rights and the further opening of markets in areas such as agriculture and services. WTO must also review progress made by working groups set up in 1996 on trade and investment, competition policy and government procurement. Finally, and probably most urgently, the former showcase countries in East Asia have to accelerate the process of deregulation and liberalization to fulfil the "conditionalities" set by international financial organizations under the present crisis.

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[2] ECLAC (1996) has suggested that in order for the region as a whole to grow at an annual rate of 6% (or for per capita income to grow at a rate of 4%), the coefficient of investment as a share of gross domestic product (GDP) must rise by six percentage points to 28%.

The WTO commitments are said to reduce developing countries' freedom in many areas of trade and industrial policy-making, the most obvious being (i) pressures to bind and reduce tariffs; (ii) the practical elimination of export subsidies and other subsidies which affect export prices; (iii) the curtailment of quantitative restrictions for balance-of-payments purposes; and (iv) the ban on domestic-content and trade-balancing requirements for foreign investors by the Agreement on Trade-Related Investment Measures (TRIMs). Special and differential treatment for developing countries has largely been limited to longer periods for implementing obligations.

On the other hand, the room for manoeuvre has by no means disappeared (Agosin, 1996; Agosin, Tussie and Crespi, 1994; Laird, 1997). Taking into consideration the endogenous focus, developing countries should actively seek to implement and strengthen policy measures to develop endogenous capacities, which are consistent with the norms of the Uruguay Round and other international agreements. Country case studies, as done in this project, may provide insights on how to design and manage this manoeuvrability.

The recent proliferation of trade accords in Latin America and East Asia, whether of a bilateral, subregional, regional or hemispheric nature, has implied the realignment of tariff and non-tariff measures, with static as well as dynamic effects, on trade and investment flows, the cost structure of production, competition patterns and the creation and diffusion of technology. The new orientation of these agreements, which include not only the reduction of tariff and non-tariff barriers but also commitments in other productive areas, should lead to a better articulation of the transport, telecommunications, energy, water and other infrastructural capacities at a regional level. It should also lead to a more homogeneous system of trade in services, investment, intellectual property rights, factor mobility, rules of origin, anti-monopoly laws, anti-dumping and safeguards, sanitary and phyto-sanitary regulations, etc. Ongoing negotiations and existing agreements in both regions will likely play a crucial role in shaping the nature and modality of government intervention acceptable at the multilateral levels. For this reason, these agreements should be analysed from the viewpoint of the endogenous model, in a comparative context between Latin America and East Asia.

The incorporation of developing countries into the multilateral WTO system and other regional schemes implies that these countries have to change domestic legislation in a large number of areas, including services, intellectual property rights and several new areas of trade policy (e.g., safeguards, subsidies, anti-dumping, investment, competition, labour and environment). National institutions have to develop their capacities for enforcement and administration. Formulating trade and industrial policy within the legal framework of the Uruguay Round and other commitments will require not only more lawyers but also able bureaucrats and efficient institutions. The new institutionality also requires networking and partnering between the public and private sectors, which should interact on industrial and trade policy. The issue of institutions, therefore, has a strong bearing on how effectively policies are implemented.

II. THE ENDOGENOUS APPROACH TO DEVELOPMENT

A. INDUSTRIAL POLICY

Government intervention is often justified under the existence of externalities and market failures in product, labour, capital and information markets. In labour markets, for instance, many important skills are acquired on the job, but high labour turnover causes enterprises to underinvest in upgrading the skills of their employees. In product markets, the pioneer enterprises that experiment with new technologies or new markets provide valuable information to others in the economy, and when successful, they can be emulated. Such informational and technological externalities, especially those of external origin, cannot be readily internalized and are therefore underproduced. In the absence of well-developed capital markets backed by an adequate prudential and regulatory framework, the financial market is unlikely to do a good job in financial intermediation, especially where long-term investments or small- or medium-scale firms are involved. Entrepreneurs thus tend to depend more on internally or family-generated funds. Labour-training externalities can be better treated with certain employment subsidies, while production externalities should be attacked more directly with production subsidies. Capital market imperfections can be solved more efficiently through interest rate subsidies or other incentives. Therefore, trade policy proper is unlikely to be a first-best instrument for correcting any distortions in factor and capital markets. The problems should be tackled at their roots.

One growth theory developed over the last 10 years or so emphasizes investment in human capital and in technologies as the major determinants of long-run growth. The theory views knowledge as a capital good with an increasing marginal product. Capital stock is assumed to be a composite good where the knowledge component, or knowledge capital, has increasing returns to scale which outweigh the decreasing returns of the physical capital stock. As a result, the incentive to accumulate capital may persist indefinitely. Meanwhile, technological change becomes endogenously determined like any other input with a price and a marginal product, rather than exogenously given. Also, the returns to new knowledge cannot be fully appropriated by the firm generating it, but rather constitute an externality that can be reaped by other economic agents (i.e., information as a public good).[3] Under these circumstances, those sectors that are conducive to knowledge creation and/or absorption deserve to be promoted through public policy.

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[3] For a summary of the literature on this growth theory, from the viewpoint of Latin America, see Bradford (1991).

New theories on international trade also emphasize dynamic externalities, both internal and external to the firm. Productivity growth is a result of an incremental and long-term process of "learning by doing", based on past and present production experiences. Within the economy, however, some sectors display greater capacity for technological innovation, while others serve as strategic sectors that transmit their strong externalities to the rest of the production system. The tacit, specific and cumulative nature of technological change can lead to divergent accumulation rates of technological capabilities among countries over time. According to this perspective, certain industries with high future potential might be promoted, using clear criteria for selectivity and performance-based incentives of a moderate, finite nature.

The industrial system should be viewed as a series of national networks of interfirm, intra-industry and interindustry linkages: competitiveness is determined by the nature of these relations along the longer production chain, based on efficient firms and a competitive network of research and development (R&D) units, suppliers, producers, distributors, wholesalers, retailers and service centres. Other crucial factors at the national level include a favourable macroeconomic environment, adequate physical infrastructure (especially in transportation and telecommunications), a literate, skilled workforce, adequate institutional infrastructure for the legal system, the financial system, export promotion and technological support. Government support in these areas should enhance the systemic competitiveness of the economy as a whole. Based on this view, to assure a faster, more intensive capital accumulation –physical and human alike– it is preferable to act simultaneously on all the segments of the economy. Policies to correct market failures in these areas may not always be selective but may be horizontal or neutral in nature.

The distinction between selective and horizontal policies is not always clear, however. When a selective policy is applied to a group of economic activities rather than to a specific enterprise or by sector, the distinction begins to blur. The application of such policies to promote an industrial complex, technology parks or certain natural resource clusters is a case in point. Economic incentives to create broad backward and forward linkages can be very selective, but they might encompass a range of economic activities. Furthermore, while selective policies do not solely mean picking or even making the winners, horizontal policies are often practiced with selectivity. For instance, although the enhancement of education is broadly unselective, the question of whether priority should be given to primary, secondary or tertiary education contains selectivity with respect to public policy. Certain forms of vocational training, university programmes, technical and scientific education and specialized industry training can be highly selective. If the investment in skill development is geared toward export promotion, then the policy to enhance it is selective, though not necessarily targeted to particular industries or sectors. Establishing priorities on what kinds of physical infrastructure should be promoted surely involves selectivity. The implementation of effective environmental protection measures and labour legislation might also require that priority be established among sectors or industries.

The most controversial selective policies will be those designed to promote and/or regulate certain productive sectors or services, especially those that are conducive to international competitiveness, for instance via tax incentives. Selective policies also include restructuring and

rationalizing sectors which produce importables, attracting foreign direct investment (FDI) to new sectors with future potential and obtaining, screening and diffusing foreign technology in harmony with the country's process of technological deepening. Policies that facilitate certain export-oriented industries and services in certain geographical areas and extend credit to entities previously excluded from the formal financial market (small- and medium-sized enterprises in particular), may be considered less controversial and probably desirable. Obvious horizontal measures include the enhancement of human capital and R&D, and the promotion of physical capital through both public investment and private participation.

In short, while some measures are unlikely to lead to reprisals by the international community, others will be subject to severe scrutiny. An urgent task facing the policy-makers of Latin America and East Asia is to assess, with certain clarity, to what extent these interventions are permitted under the emerging international trade regime, and under what modalities they are to be implemented.

B. TRADE POLICY

The advances in growth theory mentioned above have enabled trade analysts to address various types of knowledge externalities which arise from and, at the same time, contribute to the outward orientation of the economy. Endogenous technological capacities and knowledge absorption are viewed as a capital good with increasing returns to scale, and markets of knowledge are characterized as a public good. The fact that much of the world's stock of knowledge is in industrial countries makes it imperative for developing countries to open to trade as a means of capturing knowledge from abroad and internalizing it.

Major externalities include trade promotion activities that governments provide through information services and market development, which can be appropriated by firms with ambitions to export. Export externalities also accrue from meeting international market standards, product quality specifications, quality criteria and distribution and marketing challenges, which, once achieved, can be generalized to other products and processes. On the side of imports, externalities result from the learning opportunities made possible by importing capital goods and intermediate goods with embodied technologies (Bradford, 1991, p. 99). Governments can assist private-sector efforts in order to maximize these externalities. The government's ability to provide sufficient trade credit and guarantees can play a pivotal role in correcting market failures in capital markets. The ability to negotiate effectively on foreign market access in general and on specific products to specific markets can also facilitate knowledge absorption. For exports and imports to function as a cumulative process of learning and technology absorption both for local traders and for the country as a whole, the government, even of a small country, can support the private sector by ensuring the public good aspect of international insertion.

In short, it is still possibile to implement measures designed to attack the problems of infant industry protection, externalities, coordination failures and information asymmetry in product, factor and capital markets. How to implement these measures will be a major future concern of Latin America and East Asia. Both regions can learn from each other on imaginative intervention to alter the perceptions of economic agents and thereby improve the performance of an economy.

III. ASSESSMENT OF PAST INDUSTRIAL AND TRADE POLICIES

A. EXPORT-LED GROWTH OR GROWTH-LED EXPORTS?

The debate on the causality between growth and exports (i.e., export-led growth versus growth-led exports) is complex and far from being settled. Because exports are a part of the gross domestic product (GDP), and sometimes a rather substantial part, rapid increases in exports have an automatic impact on the growth rate of GDP, without any particular causal relationship being involved. Neither is there any reason to suppose a priori that export orientation should be associated with an increase in investment demand. In many cases, sizable increases in the profitability of exports do not lead to increases in investment, even after a considerable lag.

Some analysts (e.g., Krueger, 1985; World Bank, 1987) have emphasized the importance of exports as an engine of growth. The export-led growth model argues that using trade liberalization to align domestic prices with world market prices would achieve efficiency in internal resource utilization by reducing the cost of imports, thus releasing resources and income to produce and purchase domestic products and to generate exportables. Thus, trade policy reform for international competitiveness allows the economy to respond to external demand by way of establishing correct prices. The reform might include liberalization of the import regime, unification of exchange rates accompanied by devaluations and various other measures to stimulate exports (most importantly drawbacks on imported inputs for exporters) in order to offset the anti-export bias. As a consequence of these measures, under a broadly supportive macroeconomic stability, exports are expected to lead the economy to specialize according to comparative advantage, resulting in rising incomes, investment, savings and productivity.

Much of the theoretical literature on the rationale for exports emphasizes efficiency gains and productivity increases. In practice, however, the most pressing reason for developing countries to export is to overcome balance-of-payments constraints. In an economy where investment is growing both in absolute terms and as a proportion of GDP, imports of capital goods and intermediate goods will also need to grow faster than GDP, and the financing of these imports may be threatened when additional export revenues are not forthcoming. While such imports can temporarily be financed with capital inflows, the sustainability of high growth rates normally requires vigorous export growth. Another linkage between exports and growth is through market size: access to world markets allows the economy to realize the minimum scale of production that often exceeds the prevailing level of domestic demand. Exports also provide a

range of externalities that arise at the industrial level, such as economies of specialization and agglomeration (Ocampo, 1991).

In contrast, other analysts maintain that the development process is investment led (Rodrik, 1995; Singh, 1995; UNCTAD, 1994; Akyuz and Gore, 1994). Investment is a condition for productivity growth. East Asian countries have had much higher investment rates than Latin American countries in the last 25 years, and the disparity in investment performance has tended to widen. Public investment in East Asia has not declined, and private investment has gone hand in hand with increases in public investment.[4] The paradigm of investment-led growth identifies the usual causality chain as starting with investment, which increases the rate of structural change and productivity improvement, which in turn leads to a supply-driven process of export expansion and international competitiveness. Eventual decreasing returns will not necessarily set in with high rates of investment. Rather, when technical change is regarded as being embodied in new capital goods, high rates of investment lead to faster technological progress, greater learning by doing and a virtuous circle of greater competitiveness and faster economic growth. In this model, technological change and knowledge are the principal generators of growth and are endogenously determined. The rising share of exports in GDP is consistent with investment-led growth in that export orientation enables growth by allowing increases in imports, especially of capital goods.

On the issue of causality between growth and exports, Delorme Prado (1998) suggests that Brazil has experienced growth-led exports rather than export-led growth: domestic variables are the major determinants of economic growth, and exports have been necessary to generate the foreign exchange required to import capital goods and essential services and technology. While export growth cannot determine domestic economic growth, a poor performance of the external sector can indirectly affect domestic growth by way of difficulties in managing current account deficits. Delorme Prado argues that the large and sophisticated manufacturing sector established over the years enabled Brazil to expand and diversify its exports, in terms of both products and markets. For instance, the export boom took place after 1973, or after the acceleration of economic growth, not before it. Delorme Prado suggests that a country with a large domestic market, like Brazil, inherently follows a growth-led model. The growth experience of some large economies such as the United States and the People's Republic of China, whose motor of growth in recent years has been exports, suggests that his assertion might be quite accurate in today's context.

Agosin's analysis of Chile, however, shows that although both exports and investment are significant variables explaining the long-term equilibrium behaviour of the country's GDP, export-led growth better explains the facts than the competing hypothesis of growth-led exports, and particularly so since the mid-1980s (Agosin, 1997, pp. 6-19). Since then, non-traditional exports have become the most dynamic component of the economy and investment rates have risen. Agosin shows econometrically that a clear pattern of export-led growth started to appear

[4] The debt crisis of the 1980s does not fully explain this difference because the level of capital accumulation in Latin America was far lower than that in East Asia even during the 1970s.

after 1985; until then the excess capacity that resulted from a severe economic contraction in the period 1982-1983 (with negative growth of 15%) played an important role in the expansion of manufacturing exports. He cautions, however, that the sustainability of export-led growth depends on the exporter remaining a small country in world markets. This requires continuous export diversification. The next stage of export-oriented development in Chile will be more problematic because of the country's need to diversify the export basket to include goods that are more sophisticated than commodities or commodity-like goods.

Mahani suggests that Malaysian economic growth has been led by both exports and investment, depending on the phase of development (1998, pp. 1-5). In the early phase, exports definitely provided the source of growth through the generation of income, diversification and the deepening of industrial activities and employment creation. Since 1980, this role has been taken over by investment, first through public-sector investment (1980-1985) and later by the private sector, with a large FDI inflow and privatization. The large amount of investment has been channelled into plant and machinery expenditure in the manufacturing sector, which is highly export-oriented in Malaysia. If human capital accumulation and technological change —the two keys to the investment-led export model— take place precisely in the export sector, the distinction between the two models might become less clear.

Nasution's study of Indonesia (1998) shows that the country adopted a strong outward-looking industrialization strategy based on export expansion, by giving specific incentives at times, by improving resource allocation through a more efficient market system and by generating a current account position consistent with the external resource flows. The core of Indonesia's macroeconomic policy was a tight fiscal discipline and an open exchange rate system with relatively stable effective exchange rates. A substantial part of investment was in export-oriented manufacturing industries, and foreign direct investment also helped spur export-led economic growth. As in the case of Malaysia, if the major part of investment and its associated technological change take place in the export-related sector, the distinction between the two models begins to break down.

Casaburi maintains that the Argentine experience can be characterized as neither export led nor investment led (1997, p. 23). In his view, it is not possible to identify a single or predominant development strategy in any given period of more than three or four years. Furthermore, the main macroeconomic incentives in place during the last three decades were biased not only against exports (e.g., export taxes and negative relative prices for exports) but also against investment (e.g., high prices for capital goods, restrictions on foreign investment and repressed financial markets). Though export growth has been impressive only in recent years, exports still constitute a small portion of GDP. Casaburi suggests, however, that the recent experience in Argentina could be characterized as investment led, because investment has been the most dynamic component of the national product and many of the policies implemented during this period are conducive to increasing investment levels and efficiency.

Though not directly addressing the issue of the causality, Yeom (1998) mentions that the Korean Government adopted a series of industrial and trade policies consisting mainly of high

tariffs and other import restrictions, preferential tax and credit systems and administrative support, all of which were directed to *both* export industries and import-substituting ones. In this export-cum-import-substitution process, the Government tried to engineer a significant increase in the private return to capital by removing a number of impediments to investment.

Rodrik (1995) analysed the issue more directly in the case of the Republic of Korea. Although Korea's economic policy can be characterized by a strong outward orientation as reflected in the rapid and sustained growth of manufactured exports, growth has been investment led for several reasons. First, the timing of export booms did not correspond to the growth experiences. Second, the changes in relative prices were not large enough to account for such a dramatic effect on growth performance. Third, export orientation itself has no obvious implications for the rate of investment. Finally, there is no real evidence of productivity spillover from export activities to the rest of the economy. Rodrik emphasizes, instead, that favourable initial conditions arose from high levels of human capital in the labour force and the relative equality in their income distribution, and that policies were skillfully implemented to overcome a coordination failure that otherwise would have impeded investment in the modern industrial sector. Public enterprises played a very significant role in enhancing the profitability of private investment: public enterprises accounted for a large share of manufacturing output and investment in the critical take-off years of the 1960s.

B. THE ASIAN CRISIS AS A SIGN OF OVER INVESTMENT

The East Asian countries have had much higher investment rates in the last three decades, in contrast to the low investment coefficient of the Latin American countries. Deregulated financial markets and freer capital movements in Latin America are said to have worked against a more efficient resource allocation through marked exchange rate appreciations and rising interest rates. These have tended to discourage the productive investment required for structural transformation, at the same time diverting investment funds to financial channels and consumption.

Now, the Asian economic crisis displays very similar symptoms of macroeconomic disorder. Given the present situation, it may be difficult in the future for the majority of East Asian countries to maintain an investment rate exceeding 30% of GDP when the marginal return on capital might be falling. Although high economic growth rates would not have been possible with accelerated investment, it will become more problematic to guide investments to productive use, as Krugman (1994) anticipated earlier in a controversial article. He argued that economic growth in East Asia was simply attributable to the accumulation of capital and labour, rather than to productivity gains, and that diminishing returns on both factors would set in and slow Asia's growth. The problem might also have its roots in the quality of investment: a large proportion of investment has been directed to the non-tradable sectors of low returns *vis-à-vis* productive capacity. Nonetheless, this type of diminishing return on capital and labour should take place gradually, not in such a sudden manner as the recent crisis affecting the countries in the region.

In light of the situation in which Asia finds itself today, it is reasonable to conclude that the crisis was due not to a single factor, but rather to a set of internal and external factors. The Asian currency crisis was not driven by fiscal profligacy, excessive credit creation or runaway monetary expansion on the part of the governments. The crisis was caused by the rapid expansion of external credit and a large amount of private capital inflows to developing Asia through short-term bank instruments, attracted by the pegged exchange rates, high interest rates and the perception that governments guaranteed financial institutions. These factors led to currency appreciations and growing difficulties in the current account. On the other hand, easy access to foreign capital, the more liberal and permissive financial framework and inadequate Government regulation and supervision led to overinvestment and overborrowing by the private sector and fuelled speculative bubbles in movable and immovable asset markets (ECLAC, 1998, p. 16). Excessive lending by financial intermediaries created inflation, not of goods but of asset prices. As the bubble burst, falling asset prices made the insolvency of intermediaries highly visible, forcing them to cease operations and leading to further asset deflation (Krugman, 1998a and 1998b).

The question of what kind of investment to encourage and how to finance it remains an issue of paramount importance for Latin America and East Asia. Governments must apply policies that affect the parameters of the savings and investment functions, promote the efficient organization of the financial system and establish an adequate institutional framework, making it possible to channel savings to productive investment. To what extent the WTO regime should allow such measures to influence the investment and savings parameters of outward-oriented countries is still a question to be addressed.

C. ASSESSMENT OF PAST INDUSTRIAL AND TRADE POLICY

The six country studies generally recognize that though Import Substitution Industrialization (ISI) served to establish the industrial base and promoted its deepening at certain stages of development, the countries faced severe internal and external constraints in executing such policies. The studies do not refute the importance of ISI policies in changing the long-term trajectory of the countries' industrial competitiveness. However, the studies indicate that in both East Asia and Latin America, ISI policies, especially those of the second phase, did not produce the expected shift from natural resource-based or semi-skilled, labour-intensive industries to skilled, capital-intensive industries with clear international competitiveness. Nor did they reduce dependence on imported inputs. ISI attempts were often blocked by foreign exchange constraints, which in turn called for unilateral liberalization of the economies in both regions. ISI also created rent-seeking activities for special interest groups.

In the case of East Asia, however, the distinction between ISI and export promotion was not so clear. These countries pursued a policy of active export promotion and import substitution while simultaneously restructuring their comparative advantage or the sequencing of ISI and export promotion. An ISI strategy was not necessarily anti-export, and import protection was not

incompatible with export promotion. Carefully selected, well-coordinated ISI and export policies were a crucial element in the success of an outward-oriented strategy. Such mixing or sequencing of the two strategies was absent in the Latin American countries.

The experiences of these countries indicate that at the early stage, ISI incentives should have been moderate and finite, and that the exceptions to neutrality should have been few and carefully chosen. At a later phase of development, it seems more efficient to give incentives by major areas of activity —those areas most likely to yield dynamic benefits not internalized by the market— than to try to choose specific winners. The basic recommendation is that the countries pursue a set of public policies that stimulate the systemic competitiveness of the economy as a whole. Such action includes policies to supplement the capital market, attract foreign investment to new sectors offering potential comparative advantages, improve physical and social infrastructures and implement effective manpower training and R&D programmes. Policy neutrality, which is thought appropriate by the governments and legitimatized by WTO, does not mean an absence of policy incentives, however. Rather, it will still need a heavy dose of incentives.

Following the so-called easy stage of ISI, Argentina went ahead more aggressively with the second stage of heavy industry promotion from 1958 to 1975. Though industrial activity became the motor of economic growth, employment creation and capital formation during these stages, the deficiency of this model became apparent by the mid-1970s, due to repeated stop-and-go cycles marked by recurrent balance-of-payment crises (Casaburi, 1997, pp. 5-9). Over protection by way of high tariffs with wide dispersion produced an industrial sector which, though fast growing, was unable to compete in international markets. Traditional exports were the sole resource for financing the increasing import bill.

After many years of stop-and-go cycles, the Argentine Government finally initiated a drastic process of unilateral trade liberalization in 1990, cutting the average tariff rate almost in half and eliminating most non-tariff barriers. The trade and financial liberalization process peaked with the adoption in April 1991 of a package of reforms which included the Convertibility Plan, the total deregulation of the capital account and the consolidation of trade reform (Casaburi, 1997, pp. 14-16). Recent trade and industrial policies are more neutral and horizontal than in the past. Emphasis is placed on the overall competitiveness of the economy through the improvement of the general economic environment in which the private sector operates. Though reforms have done much to prevent the Government from intervening in harmful ways, there is still a long way to go in areas such as the structural transformation of weak sectors of the economy, human capital development, R&D and infrastructure to enhance the economy's systemic competitiveness.

In Brazil, before the 1950s, protectionism was an unintended result of fiscal policies designed to deal with chronic budget or current account deficits. In the 1960s and 1970s, and even up to 1988 when new reforms were introduced, Brazil maintained a trade and exchange rate regime characterized mainly by (i) restrictions on imports via import licenses and prohibitions which were an essential component of its industrial policy; (ii) active measures to promote

exports, including fiscal incentives, preferential interest rates and drawbacks for inputs used in exports; and (iii) a crawling-peg system, with the exception of short periods, which avoided overvaluation and excessive fluctuation of the real exchange rate. The remarkably high rates of economic growth, investment and exports during the era of economic miracle (1967-1974) and the period of the National Development Plan II (1975-1979) can be attributed, in large part, to the State-led ISI strategy. The oil crisis of 1974 and the resulting world stagflation did not prevent the country from promoting a new phase of ISI, relying on foreign borrowing to finance imports and public expenditures. Delorme Prado (1998) supports the idea that the diversification of exports at the end of the 1970s is explained by the success of ISI policies implemented in the post-war period. After 1979 it became clear that the old ISI strategy could not continue, forcing authorities to change their long-term strategy fundamentally.

Brazil's Industrial and Trade Policy (PICE) introduced during the Collor Administration (1990-1992) dramatically reversed the previous industrial strategy. It included a programme for the progressive reduction of tariff and non-tariff barriers, the promotion of greater specialization of industrial sectors, the improvement of technological capability through selective protection of high-tech industries and the support of the innovation process in other sectors. In contrast to the preceding periods, however, emphasis was placed on greater productive efficiency and, at the firm level, on exposing domestic producers to international competition (Delorme Prado, 1998, pp. 9-10). The Government eliminated export incentives, such as the Commission for the Concession of Fiscal Benefits to Special Export Programmes (BEFIEX), and preferential tax rates for export profits. Because of the impeachment of the President and rampant inflation, the real fruits of these liberalization measures were not felt until the implementation of the Real Plan in 1994. Though today's policy orientation is much less interventionist, the Government still applies selective policies to targeted groups. Delorme Prado argues that the execution of the Plan is unsatisfactory in terms of growth, income distribution and productive efficiency and that the Government has to implement policies to correct these deficiencies. The combination of exchange rate overvaluation, free capital account and high domestic interest rates has led to a large deficit in the current account and public finances, making the adjustment of local industry to a new environment of trade liberalization more difficult.

Agosin's analysis of Chile (1997) covers the periods after the takeover by the military government in 1973. Nevertheless, this country is known to have undergone a long period of ISI from the Great Depression to the military coup. ISI policies promoted national industries through a variety of restrictive mechanisms, such as multiple exchange rates, high tariffs, wide tariff dispersion, various taxes and surcharges on imports, licenses and quotas. Despite the fact that the manufacturing industry's coefficient in GDP reached 25% in 1970, ISI applied for such a long period did not produce the desired results. GDP growth rates and productivity increases were low, even in comparison with other Latin American countries. The industrial sector created relatively little employment. Meanwhile, the economy remained vulnerable on the external sector.[5] The only instance of a large scale, successful industrial policy since 1974 has been the

[5] On the ISI policies in Chile, see Meller (1996), chapter I.

development of forestry (Agosin, 1997, p. 36). Agosin maintains that in order for Chilean exports to diversify into more sophisticated products and services, the Government will need to solve market failures in key activities (e.g., training, education, technological and marketing know-how and the provision of long-term financing for new ventures).

Chilean trade liberalization has been applied more persistently than in other countries of Latin America. There have basically been two trade policy reforms. First, a series of trade liberalization efforts was introduced during the period 1974-1979 which involved the elimination of all non-tariff barriers, the gradual reduction of tariff rates and their consolidation into three tariff levels, the unification of the exchange rate and a devaluation. In June 1979, the average tariff came down to a low flat rate of 10%, although this was not meant to be an original plan. The financial sector reforms introduced in 1975 included the privatization of banks, the lifting of interest rate ceilings, the reduction of reserve requirements and the elimination of any restrictions on credit (Agosin, 1997, p. 28). During the period after initial depreciations, the exchange rage appreciated progressively, negatively affecting the entire tradable sector. The second trade policy reform took place in the period 1985-1991, when the economy went through a severe adjustment process in response to a foreign debt crisis: in mid-1983 the flat rate was raised to 20% and in September 1984 to 35%. As the crisis abated, the flat rate was again reduced in gradual stages beginning in 1985, and in 1989 it stood at 15%. It was lowered again in 1991 to 11%, the present level. During the latter period, a binding foreign exchange constraint produced steep exchange rate devaluations. A major challenge for the Government today, however, is to prevent greater real exchange rate appreciations that would jeopardize the viability of the export-led model.

Until the mid-1980s, Indonesia adopted a resource-based, inward-looking industrial policy with selective interventions. During the first stage of ISI, which lasted to the 1970s, some targeted industries (i.e., a range of durable goods produced by downstream or assembly-type industrial processes and a group of import-substituting and resource-based industries) were promoted for their perceived potential for industrialization. This stage was followed by another ISI period which used non-tariff barriers, especially import licenses, and high tariffs to promote capital and intermediate goods, services and infrastructure projects. Barriers to FDI were tightened, with larger minimal initial investments and strict requirements for divestment and transfer of technology (Nasution, 1998, p. 13).

Nasution's assessment (1998, chapters IV and V) is not only that industrial policy was generally unsuccessful in promoting the manufacturing industry, but that the sectors that were highly protected by ISI, such as automotive, petrochemicals and infrastructure projects, forest-based industries and state-vented products, were under public ownership or in the hands of a number of private firms which are well connected to the Government.[6] Furthermore, in some sectors of the economy, privatization has meant the transfer of monopoly rights from the State to

[6] As a result of industrial policies, Indonesia's industrial structure is such that its manufacturing sector is dominated by a limited number of large companies and is, to a great extent, controlled by government-owned firms. Also, the spatial distribution of manufacturing output is highly uneven: almost 80% of non-oil manufacturing output is produced on Java, an island occupying only 6% of the country's land (Nasution, 1998, p. 46; Hill, 1995, p. 782).

politically connected groups. These conditions, together with the poor management of rules and regulations governing the financial sector, have expanded the role of inward-oriented domestic conglomerates of low productivity (Nasution, 1998, p. 62). Financial repression, such as credit ceilings, credit allocation and interest control, has been largely ineffective for promoting economic development. In Nasution's view, the Indonesian State, unlike that of Japan or the Republic of Korea, is not strong enough to steer the industrialization process, and no bureaucratic agencies have the institutional capacity to monitor the use of government incentives (Nasution, 1998, p. 11). The criteria for picking the firms have been based more on non-economic considerations, such as nationalism, political patronage and corruption. Nepotism and cronyism explain the non-existence of a consistent, cohesive industrial policy and the absence of performance-related incentives for major enterprises. The International Monetary Fund (IMF) adjustment agreement reached in April 1998 seriously addressed for the first time the question of restructuring the highly protected sectors created by ISI.

Starting the mid-1980s, Indonesia's reforms were implemented through a series of almost annual deregulation packages which undid the highly regulated, protected policies of the foregoing periods. They touched all sectors of the economy: the financial sector, the tax system, foreign investment policy, the labour market, transport regulations and administrative reforms. Trade reforms covered the areas of tariff and non-tariff barriers, duty-free inputs for exports and export subsidies (Nasution, 1998, pp. 14-15; Hill, 1995, p. 779). Nasution (1998, p. 62) attributes the rapid industrial growth since the mid-1980s to both domestic private-sector investment and FDI rather than to the Government's industrial policy.

Import substitution involving final consumer goods was a prominent feature of the Malaysian industrialization process from the late 1950s to the late 1960s. The industries received generous fiscal incentives and moderate tariff protection, while state governments provided subsidized infrastructure. During this period, although the manufacturing sector grew substantially in terms of both output and employment provided, the industries operated with a low technological level (Mahani, 1998, pp. 11-12). After a phase of export promotion, a strategy of import substitution was reintroduced in the early 1980s to encourage heavy industries.[7] This time, the Government not only applied high tariffs to selected industries, but also participated directly in the industries by way of equity participation.[8] While the first attempt at import substitution can be considered successful, even by the Government's assessment, the second ISI episode was far from satisfactory. A number of these projects suffered heavy financial losses because of the sluggish domestic market and the inability of the industries to compete in international markets (Mahani, 1998, pp. 8-13). As noted by both Mahani and Nasution, however, the industrial policies of Malaysia and Indonesia are different from those of other countries in that they are linked with social ethnic issues.

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[7] The State-led attempt at industrial upgrading, partly supported by the increase in oil and gas revenues, was undertaken by the Heavy Industries Corporation of Malaysia (HICOM). HICOM was intended to promote industrial diversification by creating modern manufacturing activity outside the free trade zones and fostering backward linkages.

[8] By the mid-1980s, there were about 700 State-owned enterprises in a variety of economic activities (Lall, 1995, p. 765).

Malaysia has since undergone a massive structural transformation, with the emergence of manufacturing and exports as the dominant force in the growth process. However, its manufacturing sector today faces a number of structural rigidities that could impede future growth. The Malaysian manufacturing sector has not yet been able to upgrade the persistent structure of comparative advantage in labour-intensive activities, with little diversification (i.e., heavy reliance on a few key industries such as electrical components and electronics), high import content, minimal linkages with other sectors, low value added, an inadequate technological base and low correlation of wage increases to labour and productivity. Dependence on foreign-owned export companies is too strong, and these companies have not produced strong linkages with local firms. Meanwhile, some highly protected, uncompetitive domestic industries still need to be reformed. Given the structural constraints mentioned above, Malaysia has embarked on a technology- and knowledge-based industrialization, as embodied in the Second Industrial Master Plan (SIMP). This plan will guide the development of the manufacturing sector from 1996 to 2005. Its key features include developing more advanced labour skills and a bigger technological base, as well as an expansion of intermediate industries. SIMP advocates a rolling plan, which translates these broad objectives into more detailed measures, with continuous monitoring of their implementation (Mahani, 1998).

Compared to other countries, Malaysia has had a fairly liberal trade regime, but comprehensive liberalization really began in the mid-1980s. In addition to the reduction of tariff and non-tariff barriers, the country introduced a drastic change in legislation on foreign direct investment in October 1986, when the Government allowed 100% foreign equity ownership for companies which exported more than 80% of their production and employed over 350 full-time workers (Aoki and Takayasu, 1997, p. 165). As a result, FDI increased at a record-breaking rate, accounting for over 50% of total domestic investment during 1987-1992 and 71% in 1992. Non-resource-based sectors such as electrical components and electronics represented a high proportion of the incoming investment.

Korea experienced three distinguishable stages of industrialization. During the first period (1961-1973), the State combined aggressive export promotion with ISI, which led to increased exports of labour-intensive manufactures. Many State-owned enterprises were created, and public investment in infrastructure accounted for a substantial part of gross domestic investment (Kim and Leipziger, 1993). The second phase of 1973-1978 was characterized by the heavy and chemical industry (HCI) drive, which attempted to diversify and upgrade the country's industrial base. Six strategic industries were identified and supported through a mix of tax incentives, subsidized credit and import protection. The country's celebrated export success in recent years has been grounded precisely in these HCI sectors.

A sharp policy reversal occurred in 1979, when the Government withdrew from selective intervention in strategic industries and instead began to apply more neutral incentives which did not distinguish among sectors. Production inefficiencies, the lack of demand in these industries, the excessive concentration of economic power in the hands of *chaebols*, the ineffectiveness of government intervention and strong demands for economic liberalization in the world market all urged the country to reshape its economic structure (Yeom, 1998, p. 10). Despite this general

thrust toward neutrality, the Government continued to play an active role in several policy domains, namely the restructuring of distressed industries, support for the development of technology and the promotion of competition.

In Korea, deficiencies arising from the heavily export-oriented economic structure and highly concentrated business power led the Government to restructure the economy as early as the late 1970s. Serious trade liberalization began in 1981 with a dramatic departure from the previous import-licensing regime of the 1960s and the vigorous import restrictions associated with the HCI drive (Kim and Leipziger, 1993, p. 17). Starting in 1992, tariffs were gradually reduced, non-tariff barriers including customs procedures were simplified and a number of import restrictions were phased out. The Government also began to change its trade policy from one based on direct export subsidies for individual sectors or targeted industries to one using indirect policy measures for trade promotion, such as the establishment of industrial standards, tax breaks and concessional interest rates (Yeom, 1998, p. 20). The conclusion of the Uruguay Round and the creation of WTO made it urgent for the Government to expand the processes of liberalization and deregulation. With an exception for the agricultural sector, a number of deregulation measures were introduced and several administrative processes were simplified, including customs procedures, the investment approval system and the protection of intellectual property rights (Yeom, 1998, p. 13).

D. NEW FOCUS OF INDUSTRIAL AND TRADE POLICY

Whether in response to specific economic circumstances or in anticipation of the commitments to be assumed in the Uruguay Round, all the countries examined here had implemented a series of reforms ahead of the Round. The present policies are, in general, even more liberal and less interventionist than those allowed by WTO. Tariffs are significantly lower than the levels bound under the Uruguay Round, and direct export subsidies prohibited, or actionable, under the agreement were abandoned unilaterally together with the other reforms in the early 1990s.

The move toward a more liberal industrial and trade regime does not necessarily mean that the authorities have fully embraced liberal neoclassical philosophy and are relying on market mechanism alone to determine the course of economic development. Concurrently with the policy reforms, the authorities have tightened the rules and regulations on the rights and obligations of economic agents (Nasution, 1998, p. 42). The regulatory framework is, in part, intended to improve market infrastructure and minimize transaction costs. When these do not exist, new markets are to be created. Some of the rules and regulations are instruments of State intervention intended to facilitate the State's role as an agent of development with direct responsibility for increasing productivity, improving the distribution of income and wealth and correcting market failures to improve the efficiency of resource allocation.

Areas in which market failures have been problematic include the educational system, which still remains inadequate at all levels, industrial support such as training and product development, technological innovation, the promotion of small- and medium-sized enterprises (SMEs) through reduced liquidity constraints, physical infrastructure and the government network of commercial intelligence. Policies to correct these failures can be applied either horizontally, to favour any sector that qualifies for support, or selectively, to encourage specific sectors. The degree of selectivity depends more on economic rationale and administrative capacity than on WTO disciplines (Agosin, 1997, p. 42). It is generally preferable to focus on a few clusters of activity or broad economic areas rather than on specific sectors. In short, the case studies suggest that countries can adopt a variety of WTO-compatible policies to accelerate growth, promote investment, increase systemic competitiveness and assure a better distribution of income.[9]

[9] Casaburi groups these policies into the following four categories: (i) broad-based competitiveness measures to eliminate those public policies that diminish the competitive capabilities of private firms (e.g., elimination of export taxes, old and awkward regulations, export procedures plagued by red tape, etc.) and to promote physical infrastructure, through efficient privatization to safeguard consumer interests (for a variety of competitive high-tech products); (ii) R&D promotion; (iii) labour training; and (iv) enhancement of small- and medium-sized enterprises (Casaburi, 1997, pp. 51-54). To this list, Agosin (1997, pp. 30-35) adds other domains of precompetitive measures which include policies to promote human resource development, FDI and market information.

IV. TRADE AND INDUSTRIAL POLICIES AFTER THE URUGUAY ROUND: NEW CONSTRAINTS AND ROOM FOR MANOEUVRE

A. FISCAL, MONETARY AND EXCHANGE RATE POLICY OPTIONS

Though not examined in detail in the country studies, a wide range of fiscal, monetary and exchange rate policies are acceptable under the WTO norm. WTO rules do not impose restrictions on monetary and fiscal policies that would facilitate high savings and investment rates. In the new trading order, developing countries should pay special attention to enforcing fiscal discipline in the government sector and should also adopt suitable interest rate and credit policies so that household- and corporate-sector contributions to domestic savings realize their full potential in investment.

For example, Agosin suggests that the recovery of investment during the post-depression period in Chile (1982-1983) received an additional impulse from the tax reform of 1984, which in effect substituted the business profit tax with a unified tax on income from all sources. He also mentions that one of the major factors accounting for the rapid, sustained growth of non-traditional exports after 1982 in Chile was the real exchange rate, which depreciated more than 100% between 1981 and 1988 (Agosin, 1997, p. 8). Nasution argues that the tax reforms implemented in Indonesia between 1983 and 1985, which were revised 10 years later, brought in simplicity, progressivity, certainty and the closing of loopholes for tax evasion on the one hand, and public revenue from non-oil and non-foreign-trade sectors on the other. The increased revenue, in turn, permitted an increase in expenditures on basic human needs, such as primary education and health care (Nasution, 1998, p. 54).

With regard to Malaysia, Mahani and others describe the Promotion of Investment Act of 1986, which authorizes a variety of fiscal incentives (Mahani, 1998, pp. 65-66; Ariff, Mahani and Chye, 1996, p. 13). This act grants "pioneer status" incentives to companies that intend to participate in promoted activities or to produce promoted products. The status is awarded based on the value added, local content, level of technology and industrial linkages involved in the project. Companies qualifying for pioneer status could enjoy a partial exemption from income tax payments for a period of five years, and only 30% of their statutory income is taxable. Dividends disbursed to shareholders from the tax-exempt income are also tax-free. Companies involved in new activities or products are also eligible for the Investment Tax Allowance (ITA), which grants

an allowance of 60% for qualifying capital expenditures incurred within five years from the date of approval. A total of 30% of the statutory income is taxed at the prevailing company tax rate. Certain expenses incurred in the promotion of exports are also eligible for double deduction.

All the six country case studies demonstrate that trade and industrial policy instruments, including the investment regime, strongly influence and are heavily affected by exchange rate policy. A stable, realistic real exchange rate can ensure that an adequate proportion of investment goes to the tradable-goods sector. It also reduces the necessity of applying strong measures to compensate for the anti-export bias of other policies, such as special credit lines, insurance schemes, export subsidies, etc. In Chile, a managed floating with a narrow band around which the central rate is devalued on a daily basis according to the difference between domestic and foreign inflation during the past month, in addition to several discreet devaluations, has been effective in maintaining a stable exchange rate. More recently the Chilean Government has been applying a reserve requirement on foreign borrowing and on foreign financial investments in order to dampen the pressure on the exchange rate and to discourage inflows of short-term capital while maintaining liberal access for FDI (Agosin, 1997, pp. 30-31). In Indonesia, the Central Bank intervened in the foreign exchange market by buying and selling local currency in an "intervention band" around the central rate. The steady rise in the real exchange rate, which continued until quite recently, indicates an active exchange rate policy by the Government to improve the country's international competitiveness (Nasution, 1998, p. 53). This intervention band was dropped in August 1997 in response to strong speculative attacks; it was replaced by a free-floating exchange rate system.

In the case of Malaysia, the growth of manufacturing exports was supported by the Government's commitment to maintaining competitive exchange rates. Even against the backdrop of large foreign capital inflows in the late 1980s, the Government managed to stabilize the exchange rate (Mahani, 1998, pp. 22-23). In the case of Argentina, two periods of hyperinflation in less than two years led the Government, sanctioned by the Convertibility Act of 1991, to fix the peso to the United States dollar on a one-to-one basis. The resulting price stability, combined with structural reforms, attracted the return of foreign capital and produced an economic boom until 1994. However, this fixed regime resulted in appreciating real exchange rates which negatively affected export performance and employment (Casaburi, 1997, pp. 17-22).

B. PRECOMPETITIVE MEASURES TO SUPPORT SYSTEMIC COMPETITIVENESS

1. Human resource development

The positive externalities of having a large pool of highly trained workers and the negative externalities associated with the appropriation of privately financed labour training are widely recognized. For instance, Chile produced a large pool of engineers and managers trained in public universities and implemented programmes for creating sector-specific human capital in

agriculture and forestry. These factors later turned out to be essential for the export expansion of fruits, vegetables and forestry products (Agosin, 1997, p. 35).

The Argentine work force currently suffers a high level of unemployment associated with insufficient education and a problem of labour training for redundant workers in labour-intensive sectors (e.g., textiles, plastics and toys) (Casaburi, 1997, p. 53). Casaburi sustains that any policy to solve these problems has to be demand driven in the sense that the new training is truly in line with labour-market demands. Referring to the training programmes subsidized by Chile's National Service for Training and Employment (NSENCE), Agosin agrees that such programmes have to be better tailored to the real needs of workers in small- and medium-sized firms (1997, pp. 42-43). Similarly, Brazil has to increase its social expenditures rapidly to create favourable preconditions for sustainable economic growth (Delorme Prado, 1998, p. 40). The quality of public and secondary school in Brazil is low relative to that of tertiary education, and the average level of education in the country was only 5.4 years in the mid-1990s. Brazil's income distribution is one of the worst in the world, while life expectancy is relatively low and infant mortality is high.

In East Asia, the quantity of education including both formal education and on-the-job training, has expanded rapidly, but the quality has not improved accordingly. Public learning institutions in Indonesia, for example, have little autonomy or flexibility in resource use, and their links with industry are weak. Few domestic firms have good in-house training facilities. To improve the quality of education, the current Sixth Five-Year Development Plan contemplates an ambitious plan to expand access to junior secondary education and achieve universal nine-year compulsory education in 10 to 15 years (Nasution, 1998, p. 46). Malaysia, on the other hand, provides good basic education, but technical education at the university and vocational levels is limited. Industrial upgrading has been constrained by the small base of high-level technical and engineering skills, and the country lacks an effective support system for industrial technology development and extension. Under SIMP, human resource development in Malaysia will follow two directions: increasing the supply of skilled labour and up-grading productivity through training (Mahani, 1998, p. 40). In Korea, the Government has emphasized human resource development and R&D activities. Higher priority has been given to the development of human capital, as reflected in the increasing participation of this category in the total expenditure of the Industrial Infrastructure Promotion Programme (Yeom, 1998, p. 37).

2. Technology

In general, the capability of local firms to absorb foreign technologies is still weak. Most local firms do not invest sufficiently in acquiring the information and skills necessary for finding, choosing and negotiating the best importable technologies. This investment is crucial because the international technology market is imperfect: it is highly oligopolistic and fragmented, and transmission is asymmetric. Similarly, much technology transfer occurs through foreign direct investment, joint ventures, sub-contracting, production sharing, franchising, the purchase of licenses and patents, management and marketing contracts and various kinds of technical

assistance and cooperation. Technology is also transferred through in-house training and educational activities undertaken to meet plant and occupational requirements, collaboration contracts and the informal transfer of know-how which occurs through interaction with expatriates, local workers and professionals during the course of business activities. What is important is that transfer is made to trained individuals or companies.

Countries face many bottlenecks in technology innovation and transfer. In Indonesia, for example, technological progress has been concentrated in agriculture, the exploitation of natural resources and the import substitution manufacturing industry. Dissemination of technology is limited by the enclave nature of the resource-based and "strategic" industries, described earlier. The lack of specialized software experts has also been a drawback in transferring information technology to banks. In Malaysia, technology transfer is limited to a few sectors (e.g., electrical components and electronics).

Nevertheless, there are some interesting examples to emulate: The Chile Foundation, a non-profit institution which used to be publicly subsidized, has developed new technologies for exports (Agosin, 1997, p. 34). Its activities provide a good example of fruitful cooperation among the private sector, the Government and institutions. The Brazilian Agricultural Research Enterprise (EMBRAPA) has been effective in improving the productivity and quality of several crops and in transferring those improvements to the private sector (Delorme Prado, 1998 p. 22). In Korea, the Government has recognized that technological innovation is the key for sustaining economic growth and has therefore provided a series of fiscal incentives and subsidies for private R&D efforts. For instance, if private firms reserve funds for technology development, technical information or R&D personnel and facilities, they receive tax deductions for three years, up to the maximum tax deductible reserve of 5% of total sales. In addition, they may deduct up to 15% of their total expenditures on training and in-house technical education. An additional 10% deduction is allowed for investment in research facilities. All investments in research and test facilities can be depreciated at a rate of 90% per year (Yeom, 1998, pp. 35-36). With regard to public research institutions, the Government is more conscious of cost effectiveness: these institutions must compete for Government funds with private R&D organizations, including universities. Attempts have also been made to minimize the importance of R&D organizations affiliated with *chaebols*.

The Malaysian Government provides numerous fiscal incentives to enhance the R&D capability of the private sector (Mahani, 1998, p. 67). Public-sector capacity also needs to be expanded, however, and specialized development bodies such as the Standard Industrial Research Institute are encouraged to provide extension services, especially to SMEs, and to set up technology benchmarking (p. 41). The Government has created the Multimedia Super Corridor (MSC) south of Kuala Lumpur; the MSC is equipped with the latest information technology. The industries promoted under this initiative are not from the manufacturing sector, but rather from services-related areas.

3. Infrastructure

All six case studies recognize the importance of infrastructure in elevating the systemic competitiveness of the economy as a whole. The upgrading of infrastructure in Chile in the 1960s (e.g., roads, ports, airports and tunnels) was an important factor for the export push that came later (Agosin, 1997, pp. 34-35). The deregulation and privatization of infrastructure-related companies in Latin America unleashed an investment boom which contributed greatly to upgrading the quality and quantity of infrastructure. Casaburi (1997, p. 42) illustrates that the decentralization and privatization of ports and railroad transport in Argentina led to an impressive productivity gain in only five years. There is still much to be done in this area to ensure that the services are up-to-date and priced at internationally competitive levels. For instance, the government could pursue preferential policies through subsidization of key infrastructure projects in less-developed regions of the country. In the case of Brazil, growing demand is largely met by funds from private sources, including those from privatized enterprises. Other governmental agencies such as the National Economic and Social Development Bank (BNDES) have also decided to allocate more funds to infrastructure (Delorme Prado, 1998, p. 34). A government estimate suggests that the country will need to invest R$ 85 billion on infrastructure in the period 1996-1999.

4. Market information

The market for information is asymmetrical and a "public good", which often causes future users and buyers to under-invest in its development. To overcome this situation, the Chilean Government has made a significant investment since 1974 in gathering information on foreign markets. ProChile, a trade promotion division of the Ministry of Foreign Affairs, with the assistance of 38 representative offices abroad, coordinates market studies and gathers commercial information relevant to exporters. Recently, it has engaged in an aggressive campaign to create a positive country image abroad. It is about to become an independent, semi-public corporation with substantial private-sector participation. The Chilean Production Development Corporation (CORFO), a public agency, runs a similar programme with the assistance of trade associations, and it subsidizes for a limited time a share of the groups' management costs (Agosin, 1997, p. 34; Macario, 1998, p. 16). In Korea, government-affiliated agencies such as the Korean Trade Investment Promotion Agency (KOTRA) play a significant role in providing exporters with information on trade and industry and with market analyses (Yeom, 1998, p. 41). The Malaysian Foreign Trade Corporation (MATRADE) was established in 1994 to undertake trade promotion activities. It has representative offices in major cities around the world, which provide information to the exporters at home and conduct promotional activities in export markets (Mahani, 1998, p. 49).

In the area of FDI, market forces in a competitive environment could ensure the growth-diffusion and technology-diffusion effects of such investment. It is prudent, however, for host governments to set up a multidisciplinary framework for examining the various facets of foreign

investment flows and advising the private sector to take corrective actions to ensure that foreign investment activities are conducive to and consistent with the imperatives of development in the national economy. The Malaysian Industrial Development Authority (MIDA) is a good example of such an institution (Mahani, 1998, p. 48). By contrast, Argentina is not equipped with this kind of institutional support on FDI.

5. Small- and medium-sized enterprises (SMEs)

The vast majority of the support mechanisms for enterprise promotion do not contradict the WTO rules on subsidies. They are usually of a precompetitive nature, are available to all firms from all sectors and do not have a direct impact on the final price of the firm's products.

To promote SMEs, the Korean Government has used indirect measures such as tax breaks and reduced interest rates on loans for starting up SMEs. The Government provides funds for improving the structure of SMEs, for SMEs located in rural areas and for technologically oriented SMEs. In 1996, the Agency for Small- and Medium-Sized Industry was upgraded from the Office of Industrial Advancement, which now provides technical advice, assistance on labour supply, financial support, preferential procurement of products developed by SMEs and marketing and distribution. To attract talented and qualified personnel to SMEs, the Government offers special incentives such as the stock-option system and a special exemption for military service. Export subsidies for SMEs under the subsidy programme for facility investment were reportedly abolished by the end of 1996 because they were not consistent with WTO (Yeom, 1998).

In Malaysia, the Small- and Medium-Scale Industries Development Corporation (SMIDEC) has been established to formulate development programmes and to coordinate actions among distinct institutions that promote SMEs (Mahani, 1998, p. 43). A fund for industrial technical assistance was established in March 1990 to assist SMEs participating in consulting services, product development and design, quality and productivity improvement and market development (Ariff, Mahani and Chye, 1996, p. 14).

As Casaburi points out, however, programmes that support SMEs have to be demand driven to cater to the real interests and aspirations of these entities (Casaburi, 1997, p. 49). In Argentina, substantial financial assistance for SMEs has not produced the intended results. The various programmes (44 in total) did not reach the interested groups, and they had little understanding of the real needs of the end beneficiaries.

C. BUSINESS FACILITATION AND OTHER MEASURES

1. Trade

Businesses face numerous difficulties with customs rules and procedures, including non-transparent and inefficient customs infrastructures. Trade promotion can be enhanced through the simplification and harmonization of customs procedures and the standardization of norms.

The case studies demonstrate important steps to simplify trade procedures, and further improvements are expected with computerization. In Brazil, for instance, export procedures and the processing of export documentation have been improved with the introduction in 1993 of the integrated computerized system for foreign trade (SISCOMEX) (Delorme Prado, 1998, p. 11). The development and administration of standards, testing, and certification have also been improved since 1992. Indonesia passed a new customs law in 1995 to comply with Uruguay Round commitments as well as to change the system of inspection. Since 1985, the Government of Indonesia has used a private surveying company to clear imports at the point of origin. Now, estimation of the duty rate and value of imports is done at this point, and the importer pays the duty directly to his bank. Inter-island transportation has been deregulated so as to reduce documentation, rationalize port fees, allow foreign carriers to operate and simplify the procedures for obtaining investment licenses (Nasution, 1998, pp. 20 and 38).[10] This is important for a country consisting of roughly 17,000 islands. In Korea, the average period during which imported products remain at the port of entry has been reduced from 15 to 2-3 days. Customs clearance has also been greatly enhanced by electronic data interchange (Yeom, 1998, p. 31).

2. Policies on foreign direct investment (FDI)

The last decade has seen a clear tendency toward FDI liberalization. Many countries in East Asia and Latin America raised maximum foreign ownership to 100% in the majority of sectors, except for sectors of public interest. The divestment period was also increased.[11] At the same time, the conditions for receiving national treatment have been further relaxed. Many countries have shifted from an approval system to an application system. These moves will facilitate FDI.

The Malaysian Industrial Development Authority (MIDA) has proved to be a very important coordination centre for investments in Malaysia. Investors only need to approach

[10] Uruguay has implemented a "de-bureaucratization" programme to simplify customs procedures for exporting its major products (e.g., meat, wool and leather). Improvements include reducing the number of papers necessary from ten to four, consolidating the many distinct layers of bureaucratic procedures and speeding up the processes. Another improvement is the system of a single window at the Centre for Export Documentation (CENTREX) in the Central Bank. Once an exporter files an Exporter Registration Card, CENTREX issues export documents on presentation of an export application and a commercial invoice, thereby greatly simplifying the paper work involved (Laird, 1997, p. 19).

[11] On liberalization of foreign ownership and divestment of FDI in Indonesia, for instance, see Stephenson and Pangetsu (1996, pp. 34-37).

MIDA for approvals required at the federal level. The usefulness of this one-stop investment centre for streamlining and simplifying the administrative procedure has been acknowledged and emulated by other developing countries (Mahani, 1998, p. 48). Korea, for instance, has recently instituted similar administrative procedures and a one-stop service system. In September 1993 the Government announced a foreign investment liberalization plan which converted the previous approval system to an application system. Further liberalization measures were introduced in June 1994 and 1996, extending industry scope and investment environments. By 2000, FDI will be free of restriction, except in 18 sectors under total ban and 26 partially liberalized sectors. As of 1997, the FDI application can be made at any foreign exchange bank rather than at the Bank of Korea, and the bank must reply promptly rather than taking 20-30 days, which is the current customary practice of the Bank of Korea (Yeom, 1998, pp. 25-26). Similarly, Chile's Decree Law 600 of 1974 gave national treatment to foreign investors, opened most of the economy to FDI, made project approval automatic once simple conditions were met and guaranteed unrestricted remittance of profits at any time and repatriation of capital after three years (Agosin, 1997, pp. 32-33).

Another set of measures includes agreements to eliminate double taxation on international income, such as business profits, dividends and interests on royalties, and investment guarantee agreements to maintain foreign investors' confidence by providing assurance against non-commercial risks, such as expropriation and nationalization, and free repatriation of capital.

3. Export-credit insurance and guarantees

One area in which governments can play an important role is in widening and improving trading facilities to supplement fiscal incentives, particularly those related to export financing, export credit and guarantees. The Ministry of Finance, jointly with the central bank, can be instrumental in providing finance- and insurance-related export incentives and facilities. This ministry can also increase its efficiency in administering import duty exemptions and drawbacks.

Export credits and export-credit guarantee or insurance programmes are prohibited if they are offered below cost, but not if the loans are made above cost but below market rates. Export credits and insurance schemes such as Brazil's Export Financing Programme (PROEX) and its financing Programme for the Export of Machinery and Equipment (FINAMEX), which take place below market rates but above cost, are thus not considered subsidies.[12] Meanwhile, concessional taxes and duty provisions covering earnings, profits and imported materials and

[12] Support for the export of goods and services is available through PROEX. Although interest rates are pegged to the London interbank offered rate (LIBOR), the rate equalization mechanism provides a subsidy to Brazilian exports because the Government pays the difference between the interest charged and the cost of raising funds. The National Economic and Social Development Bank (BNDES) operates FINAMEX, offering financial facilities for the export of capital goods and equipment.

capital goods are considered to contain a subsidy element.[13] Those cases will require a comprehensive overhaul of the internal taxation system.

The Government of Chile provides a fund which covers up to 50% of the guarantee required by commercial banks for firms involved in non-traditional exports. CORFO manages a fund for foreign buyers of Chilean capital and durable goods and engineering services and consultancy. CORFO also manages a long term credit line to finance investment in export projects by firms whose sales are inferior to US$ 30 million. The same organization provides support on export insurance through subsidies to SMEs whose annual sales do not reach US$ 10 million (Macario, 1998, pp. 9-11).

The Malaysian Export Credit Insurance Berhad (MECIB) provides export-credit insurance and guarantees to trading and manufacturing exporters. Exporters can insure against both commercial and non-commercial risks, including buyer's insolvency and protracted default, buyer's failure to accept goods, delay in the transfer of payment to Malaysia, the imposition of import restrictions and import license cancellation. A banker's guarantee indemnifies against losses arising from an exporter's failure to repay export loans because of insolvency or protracted default. A guarantee is also given on loans made by a lender in Malaysia to an overseas buyer or bank for the purchase of Malaysian goods (Mahani, 1998, p. 49-50). Under the Export Credit Refinancing (ECR) scheme, direct and indirect exporters of eligible manufactured goods and selected primary commodities can obtain short-term pre-shipment and post-shipment financing from commercial banks at preferential interest rates of 5% per year (Mahani, 1998, p. 66). In Korea, export financing consists of post-shipment export loans, tax-free reserves and export credits. Also, the Korean Export Insurance Corporation provides export insurance and overseas investment insurance (Yeom, 1998, pp. 33-34).

D. URUGUAY ROUND AGREEMENTS

1. Export subsidies

The WTO Agreement on Subsidies and Countervailing Measures defines a subsidy as a financial contribution by the government (including non-collection of taxes that would otherwise be due) and clarifies the rules on the use of subsidies. They are now classified into three categories: prohibited, actionable, and non-actionable subsidies. Any developing country with a per capita gross national product (GNP) of less than US$ 1,000 is permitted to maintain export subsidies. Once it graduates from this income level, that country has to phase out export subsidies within eight years. This gives an interesting, but not necessarily sufficient, breathing space to lower-middle-income countries where significant industrialization has not yet taken place. The

[13] Such is the case for Colombia's Import-Export System (SIEX) (Laird, 1996, pp. 3-4).

agreement also contains certain flexibilities, however: developing countries are allowed to subsidize exports if their presence in the importing country's market is modest. This *de minimis* clause indicates the possibility of applying even actionable subsidies (i.e., those that cause injury, the nullification or impairment of benefits, or serious prejudice) if they are moderate.[14]

Prohibited subsidies include non-agricultural export subsidies[15] and subsidies contingent on domestic-content requirements. These prohibitions affect a wide range of export performance schemes still in practice, such as the reduction of tariffs on imported inputs up to an equivalent value of exported final goods. A clear example of this would be the Brazilian and Argentine waiver on imported components used in automobile assembly, up to the equivalent value of exported automobiles (Casaburi, 1997, p. 33).[16] Similarly, Chile uses a rebate system based on the f.o.b. value of exports, which does not conform to the WTO provisions on duty drawbacks (Agosin, 1997, p. 32). This is because such measures indirectly affect the prices of all factors of production, including wages, costs of capital and other factor costs, none of which is rebated. Duty drawback schemes, which rebate the precise amount of a duty on the export of a component incorporated in a final good, is not considered an export subsidy. [17]

Another important exclusion is the precise exemption or remission of indirect taxes that are normally payable on the production and distribution of like goods sold for domestic consumption (e.g., sales taxes or value added taxes, but not direct taxes, for instance, on wages and profits). Argentina is reported to have introduced such a system of indirect tax rebates on exports (Casaburi, 1997, p. 35). In Chile, exporters are allowed to recover value added taxes levied on inputs and intermediate materials (Macario, 1998, p. 4).

Many countries in Latin America and the Caribbean and East Asia provide a number of fiscal incentives for industries located in export processing zones (EPZs). These are often linked to outward processing operations, or *maquilas*. For some countries in Central America and the Caribbean and others in East Asia, a major part of their exports originate from these zones. Laird states that in "WTO terms, such zones have a systemic implication similar to that of voluntary exports restraints (VERs), in that there is a complicity between importers and exporters to use a device which, to the extent that subsidies are involved, is contrary to WTO rules" (1997, p. 16). Depending on the nature of the fiscal exemptions and other incentives available for free trade

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[14] Serious prejudice occurs when the amount of the total *ad valorem* subsidy exceeds 5%, when subsidies are used to cover operating costs or when there is direct debt forgiveness.

[15] Agriculture is exempt from the general prohibition on the use of export subsidies.

[16] In Brazil, under the Special Export Programme for the Concession of Fiscal Benefits (BEFIEX), tax and duty exemptions and reductions for inputs to export industries have provided substantial benefits to exporters, especially in the automotive sector. New benefits under BEFIEX were abolished in 1990, and the phasing out of existing concessions should be completed by 1999 (Delorme Prado, 1998, p. 11). The normal drawback system remains intact.

[17] In Chile, importers of capital goods pay duties on a deferred schedule of up to seven years, and exporters are exempt from those payments. This provision and the simplified drawback are both considered subsidies by WTO, and will have to be eliminated by the end of 2002 (Agosin, 1997, p. 32).

zones and EPZs, developing countries may have to bring their legislation in line with WTO provisions before 2003 (WTO, 1997, p. 51).

The *non-actionable* category allows developing countries to subsidize activities with externalities, if they are not oriented especially to exports and if the subsidies are given to all industries. This permits, in principle, the use of subsidies related to training and retraining that is essential for upgrading productivity and international competitiveness, as well as R&D-related subsidies, including product-quality improvements, local adaptation of foreign technology and studies on consumer tastes. Subsidies that are general in nature (i.e., not specific in the sense used for actionable ones) and thus do not have an impact on prices are not actionable. Other examples of general subsidies include assistance to underdeveloped regions,[18] support for complying with new environmental standards and certain types of privatization programmes when applied by developing countries.

For countries such as Malaysia and Argentina, it would not be difficult to phase out subsidies, as they have already abolished a number of subsidies based on export performance (Casaburi, 1997, p. 36). Future support for the manufacturing sector will not be based on subsidies but will encourage firms to increase productivity and labour skills. For other countries such as Korea, it is necessary to replace existing prohibited subsidies for export promotion and domestic product procurement with non-actionable subsidies and to reduce the amount and scope of subsidies during the prescribed grace period. In fact, the Government of Korea recently announced that the five categories of subsidies that violate WTO regulations are to be replaced by export insurance, long-term export credit, drawback schemes and trade bill systems which are allowed under WTO (Yeom, 1998, p. 33).[19]

2. Counter measures on imports and exports

In the first 20 years of the General Agreement on Tariffs and Trade (GATT), the anti-dumping mechanism was rarely used because of high tariffs and the extensive use of quantitative import restrictions. Today, it has become the prime instrument in trade defense. Developing countries are also finding greater use of the anti-dumping mechanism.[20] The Agreement requires that anti-dumping duties remain in place for no longer than five years, unless a review demonstrates that

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[18] In Brazil, for example, regional development is promoted through federal and BNDES programmes and through free trade zones. By far the most important of these zones is the Manaus Free Trade Zone, from which practically all the production is destined for the Brazilian domestic market.

[19] They are: (i) export subsidies on export performance not only for big firms but also for SMEs; (ii) allowing reserve funds for export losses to be counted as an expense; (iii) allowing reserve funds for developing foreign markets to be counted as an expense; (iv) the application of different tax rates to domestic and foreign products for facility investment to improve productivity and rationalization, under the Tax Deduction System for Facility Investment; and (v) subsidies for purchasing domestic main-frame computers.

[20] Domestic producers' preference for this mechanism over other trade-control measures, such as safeguards under Article XIX of GATT, relates to several factors: (i) the injury test is lower; (ii) it allows discrimination, with anti-dumping duties set for each foreign firm; (iii) the time-frame is longer; (iv) the use of safeguards envisages adjustment by the domestic industry; (v) there is no compensation requirement; and (vi) a foreigner can be labeled "unfair" in the propaganda war (Laird, 1997, p. 11).

the removal of injury would likely lead to continuation of dumping and injury, the so-called sunset clause.[21]

A number of developing countries have been involved in consultations and panel reviews regarding the application of GATT/WTO anti-dumping and countervailing regulations.[22] Some countries have introduced new laws and regulations to enable them to instigate such actions against exporting countries. Only Korea followed the Tokyo Round Agreements on Anti-Dumping and on Subsidies and Countervailing Measures in 1986. Argentina, Brazil, Indonesia and Malaysia began to implement changes to conform to the WTO provisions in 1994-1996 (Casaburi, 1997, p. 37; Delorme Prado, 1998, p. 25; Nasution, 1998, p. 40; Mahani, 1998, p. 35). Chile is in the process of doing so (Agosin, 1997, p. 39). However, there is still a lot of ground to cover to fully comply with the WTO provisions. For instance, although the Malaysian anti-dumping and countervailing measures are comprehensive, the Malaysian Anti-Dumping Law needs to be revised to incorporate the legal definition of "dumping"; to amplify its too-restrictive definition of domestic industry; and to require that to initiate an investigation, the petition must be supported by at least 25% of the total production of the domestic industry (Mahan, 1998, p. 35).

Still other countries need to eliminate such measures as domestic-goods procurement agreements, orderly market arrangements and other import-relief measures. In addition, emergency tariffs, quota tariffs and adjustment tariff systems should be consistent with the WTO Agreement on Safeguards. It will also be necessary to strengthen administrative and support capacities in order to implement the UR commitments effectively.

3. TRIMs

The TRIMs Agreement reaffirms existing GATT disciplines related to national treatment (Article III) and the prohibition of quantitative restrictions (Article XI) of GATT 1947. Essentially, TRIMs on local-content and trade-balancing requirements are inconsistent with the former, while those relating to trade- and foreign exchange-balancing restrictions and domestic sales requirements violate the latter. All members had 90 days from the entry into force of WTO to notify measures not in conformity with the provisions of the agreement. Unreported measures had to be eliminated immediately. Developed countries were obliged to eliminate notified measures within two years (i.e., by 1997), while developing countries had five years and least developed countries had seven years. Indonesia, for example, committed itself to phasing out

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[21] The agreement also contains *de minimis* provisions relating to the margin of dumping and volume for terminating proceedings: anti-dumping cases are to be terminated if the margin of dumping is less than 2% or if the share of the volume from particular countries in the importing market is below 3% (or, cumulatively, 7% among exporters supplying less than a 3% share).

[22] For example, Brazil's use of contingency measures has increased, with 66 anti-dumping cases and 13 countervailing investigations initiated between 1992 and 1995. In mid-1996, 25 anti-dumping and 7 countervailing actions were in force (Delorme Prado, 1998, p. 26). The number of Argentina's anti-dumping investigations has increased tremendously in recent years. Over the period 1986-1990 and in the first half of 1996, the country initiated the largest number of anti-dumping investigations in the world (Casaburi, 1997, p. 37).

local-content requirements in four product groups (i.e., motor vehicles, utility boilers, soybean cake and fresh milk) within 5 years (Nasution, 1998, p. 35).

This agreement could have far-reaching implications for many industries of interest to developing countries, such as the automobile sector, where local-content schemes and export-balancing requirements are widespread. For instance, the automotive regime of the Southern Common Market (Mercosur) has to be modified to make it compatible with WTO before 1999 (Casaburi, 1997, p. 33; Delorme Prado, 1998, p. 24). The export and local-content performance requirements for the Chilean automotive industry will also be changed to conform to WTO regulations by the same year (Agosin 1997, p. 37). In Malaysia, the only measure currently in practice that contravenes the TRIMs Agreement is in the automotive industry (Mahani, 1998, p. 36). Special tax, customs or credit privileges granted to the controversial National Car Programme of Indonesia (Nasution, 1998, p. 35), which were suspected of violating several WTO principles, were discontinued starting January 1998.[23]

Many measures are still in line with the TRIMs Agreement, and these should enhance endogenous technological capacity through FDI. For example, the financial and tax incentives provided by the Korean Government for foreign investors who are introducing high-technology businesses into the country include three-year short-term foreign borrowing, foreign commercial loans of over three years and deductions for corporate taxes and value added taxes. These investors are also allowed to acquire larger areas of land, and the Foreign Investment Industrial Complex is being developed in the Kwangju and Chunan area. Each local government is supposed to open a foreign investment assistance centre and all institutional supports are to be provided to domestic small- and medium-sized firms, including R&D assistance for foreign investors. These measures are in line with the TRIMs Agreement and should enhance endogenous technological capacity (Yeom, 1998, p. 27; Pyo, Kim and Cheong, 1996, pp. 4-5).

As these examples suggest, these TRIM restrictions do not prevent developing countries from using special tax incentives to attack multinational firms which would have strong impacts on local competitiveness, technology enhancement, human capital capacitation, etc. Moreover, this agreement does not address the issue of local-content requirements related to government procurement. Most developing countries did not sign the Uruguay Round Agreement on Government Procurement and hence face no restrictions on the use of local-content requirements in this context.

4. TRIPs

Some countries have already reformed their regulations to conform with the TRIPs Agreement. Argentina and Brazil passed new industrial property laws in December 1994 and May 1996, respectively; the laws cover, among others, the granting of patents of invention and of utility

[23] These are basically three: the luxury tax exemption violates the national treatment principle; duty free imports of parts from one designated company of a particular country is against the most favoured nation (MFN) clause; and tariff reductions tied to the local-content ratio violates the TRIMs Agreement (Nasution, 1998, p. 35).

models, legislation of industrial designs and trademarks and the repression of false geographic indications. The laws were designed not only to respect international agreements, but to settle pending disputes with the United States in this area. These laws incorporated stricter requirements and shorter transition periods than those specified by WTO (Casaburi, 1997, p. 30; Delorme Prado, 1998, p. 32). In Brazil, provisions on pipeline protection[24] entered into force in May 1996, while other sections came into force in mid-1997 (WTO, 1996, pp. 121-127).

Chile, Indonesia and Malaysia will all amend their copyright, patent and trademark laws. For example, Chile and Malaysia will provide copyright protection for a term of 20 years from the date of filing, instead of 15 years from the date of grant. Chile is also required to apply a more strict usage of geographical specification (Agosin, 1997, p. 40). Indonesia and Malaysia will introduce new laws on industrial design related to integrated circuits, protection of new plant variety and protection of trade secrets.[25] Their compulsory licensing provisions must also be changed to conform with Article 31 of the TRIPs Agreement (Ariff, Mahani and Chye 1996, p. 46).[26]

Korea is taking positive steps to minimize the effects of the TRIPs Agreement (Pyo, Kim and Cheong, 1996, p. 15). One such step is the dissemination of patent information among firms, research institutes and universities. Another is helping firms to develop their own brands, to improve their design capacity and to protect their endogenous technology. Government authorities can also improve the coordination of TRIPs administration among different government branches.[27] For those countries which are already creators and exporters of intellectual property rights and which possess patents in certain crucial areas, the agreement provides better protection inside the countries themselves as well as outside. However, it will imply higher administrative and enforcement costs, increased expenses to acquire proprietary knowledge and start-up and incremental costs for monitoring domestic R&D facilities.

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[24] Article 70 provides for what is called pipeline protection a country that has not introduced a product patenting regime must provide five years of exclusive marketing rights to foreign patent-right holders for pharmaceutical and agricultural chemical products. Granting exclusive marketing rights to a foreign patent-right holder tends to thwart local initiatives for innovation and competition.

[25] In the late 1980s and early 1990s, Indonesia gradually introduced various laws and regulations on intellectual property rights, such as copyright (in 1982 and updated in 1987), patents (in 1989 and amended in 1991) and trademarks (in 1992 to replace the 1961 law). The new trademark law involved a fundamental change in recognizing the "first use principle" (i.e., the first to use the product or service is the one entitled to register the trademark) rather than the "register system" (i.e., the first to register has the right to the trademark) (Nasution, 1998, pp. 32-33; Stephenson and Pangetsu, 1996, pp. 104-108).

[26] Exercising a patent is the obligation of the patent-right holder, and for this reason many Patent Acts provide for compulsory licensing of the patent for its activation. However, GATT 1994 does not provide for this. Article XXVII envisages that patent rights are "enjoyable without discrimination as to the place of invention, the field of technology and whether the products are imported or locally produced". Importation is considered equivalent to local production, thereby indicating that patents can be exercised through importation of the product. The agreement allows compulsory licensing only in limited cases (e.g., educational and research purposes).

[27] For example, Korea has designated the Patent Office for industrial property rights; the Ministry of Culture for copyrights; the Ministry of Industry and Resources for semiconductor design rights; and the Ministry of Science and Technology for computer program rights.

Despite the fairly strong limitations placed on TRIPs, developing countries still have some room for manoeuvre. They can use to their advantage the transitory nature of the agreement, which has a maximum 10-year grace period for implementation. Royalties on imported technology will not necessarily inhibit technology transfer to developing countries. The information embedded in each patent or even in each imported good is public knowledge; nothing prohibits businesses from using it as a starting point for other innovations. In fact, all innovations must be adapted to local conditions, and they are receptive to continuous improvements. If, for instance, countries succeed in excluding from their national patent legislation those innovations that are already routine or that constitute a minor advance, and if they can exclude general scientific principles from copyrights, significant gaps will remain in the international legal system for practicing reverse engineering and adapting existing technology (Agosin, 1996, p. 164).

5. Services

From the viewpoint of developing countries, the General Agreement on Trade in Services (GATS) is a relatively balanced agreement whose principal merit is to establish a flexible basis for future negotiations. Because the service sector involves the movement of factors of production across national borders, the agreement contains a series of exceptions and positive lists to which countries can resort, hence preserving an important degree of national autonomy. Also, GATS allows developing countries to negotiate specific commitments from foreign firms to strengthen the efficiency and competitiveness of their domestic services, including access to technology, distribution channels and information networks.

Developing countries in both East Asia and Latin America practice a high degree of selectivity in the GATS commitments.[28] They are standstill commitments.[29] Most countries attached limitations to commitments related to market access and national treatment. In general, while almost complete foreign participation is allowed for the cross-border transactions and consumption abroad, strong restrictions are imposed on commercial presence and the movement of natural persons. In many sectors, approval will still be required for asset acquisition, mergers or the takeover of a national entity by foreigners. Certain limits on national treatment are also imposed for reasons of State interest. In most service activities, a commercial presence is allowed through a locally incorporated joint venture, and aggregate foreign shareholding in the joint venture may have a ceiling. The commercial presence of a foreign financial institution is only allowed through the establishment of a locally incorporated joint-venture company with aggregate foreign shareholding not exceeding a certain limit. In addition, each country presented

[28] The proportion of sectors (out of 1,240 possible cases) which did not contain any restrictions, in terms of both market access and national treatment was 6.8% for Latin America and 8.0% for East Asia (Hoekman and Braga, 1996, pp. 5-20).

[29] It should be noted, however, that recent negotiations on trade in services by sector have produced concrete results on liberalization. The new GATS negotiations on financial services terminated 12 December 1997. The recently concluded WTO agreements on telecommunications services and on eliminating tariffs on information technology products might be interpreted as evidence that single-sector negotiations can produce more results than general negotiations on the whole spectrum of services.

a list of most-favoured nation (MFN) exemptions for particular sectors (e.g., the movement of personnel or semi-skilled workers, construction, and government-funded projects). These exemptions are subject to review every five years, to be conducted by the Council for Trade in Services.

Indonesia for instance, practices a high degree of selectivity. Within the GATS framework, the country has made commitments on services in five broad sectors: telecommunications, industrial services, tourism, non-banking financial services and banking services (Nasution, 1998, pp. 26-32). Certain limitations on market access and national treatment are attached to these commitments.[30] However, in April 1998 the Government reached an agreement with the IMF on reforms that will severely reduce the room for manoeuvre in applying these selective policies. For instance, the 49% limit on foreign investment in listed companies must be removed. Restrictions on foreign investment in retail and wholesale trade must also be lifted.[31]

In most service activities in Malaysia, a commercial presence is allowed through a locally incorporated joint venture with either Malaysian individuals or Malaysian-controlled corporations. The commercial presence of a foreign financial institution is only allowed through the establishment of a locally incorporated joint-venture company, with aggregate foreign shareholding not to exceed 30% (to be raised to 49% in 2000) (Mahani, 1998, pp. 32-33). In the new WTO financial services commitments concluded in December 1997, Argentina did not make any offer (Casaburi, 1997, p. 34).[32]

The principal benefits arising from financial liberalization are the expansion of the range of financial services available to domestic firms (e.g., trade finance and insurance) and the associated organizational, managerial and marketing know-how. Developing countries should therefore apply the selectivity and discretion allowed for in GATS to discriminate in favour of long-term capital flows that increase investment and against short-term volatile flows that destabilize the domestic economy (Agosin, 1997, pp. 30-31).

6. Agriculture

The Agreement on Agriculture provides exporters in developing countries with certain special, differential treatments regarding the *de minimis* provision, export subsidies and exemptions from

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[30] The number of foreign firms in telecommunications is restricted to five. Foreign firms or joint ventures are also discriminatorily required to have a higher paid-up capital than that applied to domestic firms. Foreign shipping or airline companies operating in the country are required to appoint local firms as general agents. The number of foreign banks allowed to open full branches in the country has been limited to 10. Foreign joint ventures in the insurance sector must be capitalized at up to five times the level of domestic firms, etc. (Nasution, 1998, pp. 31-32).

[31] For details see memorandum of Economic and Financial Policies of the Government of Indonesia in IMF home page.

[32] For the 70 countries which made offers in the new financial services agreement, including Brazil, Chile, Indonesia, Korea and Malaysia, see "Non-attributable Summary of the Main Improvements in the New Financial Services Commitments" in WTO home page.

certain subsidies.[33] The latter involve, for example, the exemption from commitments to reduce export subsidies on marketing (including those related to their manipulation, improvement and other processing expenses) and on international and domestic transport costs. The "Green Box" measures include Government assistance for R&D, fighting pests or diseases, infrastructure, food security, structural adjustment, environmental programmes and regional assistance programmes. Indonesia, for example, recorded all the existing domestic support schemes under the Green Box to secure exemptions from reduction commitments (Nasution, 1998, p. 26).

For countries like Argentina[34] and Brazil,[35] the Agreement on Agriculture does not imply major changes, while for others it means major adjustments. For Argentina, whose major exports are agricultural items, the agreement has been a big step toward dismantling protectionism, principally in the United States and the European Union (Casaburi, 1997, pp. 30-32). Korea, on the other hand, must implement policies to minimize the short-term impacts of the Round and to support farmers' welfare through various means of income assistance (Yeom, 1998, pp. 14-16). Countries in a similar position may have to restructure and streamline existing subsidy-related rules and laws, such as double-price systems, grain management systems and agricultural subsidies. In addition, they may need to provide emergency import relief and improve sanitary and phytosanitary measures for imported agricultural products. In all cases, it is necessary to make progress in restructuring the agricultural sector and raising its productivity.

Both price-based and non-price-based factors such as quality and standards are emerging as the crucial determinants of comparative advantage in this sector. The policy response in the developing world aims to improve productivity, expand the scale of operations and conform to the sanitary and health standards of agricultural products. Since government support for R&D activities and other service programmes is exempt from reduction commitments, governments should seize these opportunities to divert resources released by subsidy reduction to programmes that increase R&D activities.

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[33] By virtue of the *de minimis* provision, in developing countries, internal support measures that do not exceed 10% of the production value (the threshold is 5% for developed countries) are exempted from the reduction commitments. Export subsidies by developing countries will also be reduced by 21% over a 10-year period from their average levels prevailing in 1986-1990 (36% over 6 years for developed countries).

[34] In Argentina, one policy pending is the subsidies granted to tobacco growers, a practice challenged by WTO (Casaburi, 1997, pp. 32-33).

[35] For a summary on Brazil, see WTO (1996).

V. REGIONAL INTEGRATION

A. LATIN AMERICA

The buoyancy of intraregional trade among Latin American countries in the 1990s has both caused and resulted from the proliferation of bilateral and multilateral integration and free trade agreements. Among the 11 countries of the Latin American Integration Association (LAIA), 36 Economic Complementation Agreements have been signed, 31 of which are bilateral agreements. Some of these have already been superseded or replaced by new bilateral or plurilateral agreements. Mercosur signed an Economic Complementation Agreement to form a free trade area with Chile and Bolivia in 1996. The major pending issues are the completion of Mercosur negotiations with Mexico and with the Andean Community countries. For the latter, the two integration schemes have already signed a framework agreement seeking to establish multilateral preferences over existing bilateral agreements signed between the countries concerned. In addition, the majority of the governments of Latin America and the Caribbean are committed to creating the hemisphere-wide Free Trade Area of the Americas (FTAA) beginning in the year 2005.

Traditional integration arrangements have adjusted themselves to new realities. Instead of serving as instruments for the limited expansion of protected markets, they have become a strategic weapon for export expansion and a potential trampoline, or testing ground, for access to developed countries' markets for new manufactures from the region. The new realities of integration have produced a drastic modification in the countries' tariff structures, reducing the dispersion around the mean and eliminating non-tariff barriers on imports. For instance, the general structure of Mercosur's common external tariffs is currently as follows: the tariff average is 11.1% and the level of the most frequent modal tariff is 14%, which applies to almost 24% of all products.[36]

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[36] The Mercosur tariff structure is basically conditioned by the Common External Tariff (CET), which began to operate in January 1995. The range of tariffs is 0%-20%, within which there are 11 different levels. The CET applies to close to 90% of the list of items (some 8,500 lines). A list of exceptions to the CET has been established for up to 300 tariff items per country (399 for Paraguay), effective through the end of the year 2000 (2006 for Paraguay). The list has to be converged linearly and automatically to the CET rate within this specified period. Besides these exceptions, two sectors (automobiles and sugar) are under a special regime, and phase-out timetables have been set for each (Casaburi, 1997, p. 26). Capital goods, telecommunications and computer equipment are also treated differently: capital goods will have a maximum tariff of 14% effective from the year 2001 (2006 for Paraguay and Uruguay); telecommunication goods and computer equipment will have a maximum CET of 16% from the year 2006.

These rates are far below the bound rates established in the UR negotiations. In the case of Argentina, the current average tariff is less than 11% and top rates are just over 30%, while the legally bound rate in WTO is 35% (Casaburi, 1997, p. 37). Brazil agreed to a bound ceiling rate of 35% for the vast majority of lines (Delorme, Prado 1998, p. 22), whereas the average tariff rate is actually less than 10%. In the UR, Chile committed itself to reduce its bound tariff rates from 35% to 25% for almost all products, far above the present flat rate of 11% (Agosin, 1997, p. 39). Similarly, the bound ceiling rates for Indonesia and Malaysia are 40% and 30%, respectively (Nasution, 1998, p. 24; Mahani, 1998, p. 26).

Since 1991, participation in Mercosur has produced a substantial increase of Argentine exports to member countries, especially Brazil, without negatively affecting trade flows with non-Mercosur countries (Casaburi, 1997, p. 27). The same applies to Brazil. Among the main trading partners with which Chile has signed free trade agreements, Mercosur in particular holds great promise for rapidly increasing exports of manufactures (Agosin, 1997, pp. 46-52). Besides, Chile and the Mercosur countries are potentially "natural" trading partners, since the latter are the world's most efficient producers of food staples while Chile is not. As Mercosur draws in other South American countries, it may become the hub for a continental free trade area. On the other hand, benefits of a possible association with the North American Free Trade Agreement (NAFTA) would be small. A free trade agreement with the European Union (EU) would be more advantageous, especially if the high tariff and non-tariff barriers that the EU maintains on agricultural products are to be substantially reduced. Chile has been participating actively in the Asia-Pacific Economic Cooperation (APEC), but it is still unclear what direction that grouping will take.

Regional trade agreements are generally WTO-plus in nature. For instance, within the Western Hemisphere, several agreements and provisions exist on trade in services, the most important being NAFTA. These agreements differ from GATS in two ways: (i) GATS adopts a "positive" list approach, while these regional agreements, a "negative" list approach; and (ii) these agreements provide for the right of no establishment to foreign suppliers, in order to promote cross-border trade in services.[37] Mercosur has a similar agreement on services, which should give an additional impulse to the WTO-plus focus on trade in services. An agreement for FTAA could further strengthen this focus.

A substantial part of the bilateral trade between MERCOSUR member countries is intra-industry and intra-firm, involving in particular transport vehicles and parts, chemicals and agro-industrial products. It is therefore important for the member countries to create mechanisms leading to an integration process beyond the Customs Union (Delorme Prado, 1998, p. 41). Mercosur countries have recently emphasized improvements in infrastructure and trade-facilitating measures and institutions. Policy convergence in many areas, including investment regulation, competition policies and even macroeconomic polices, will become increasingly necessary.

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[37] On these agreements, see, OAS (1997).

B. EAST ASIA

Plans for tariff reduction over the next several years indicate that the majority of the members of the Asia-Pacific Economic Cooperation (APEC) have adopted a Uruguay Round-plus approach, attaching timetables for substantially reducing tariffs in certain sectors ahead of the schedule envisaged under UR commitments. While Korea has made relatively modest commitments, members of the Association of South-East Asian Nations (ASEAN) have committed to greater reductions, which is consistent with their ambitious plan of tariff reduction programmed within the Asean Free-Trade Area (AFTA).[38]

Trade liberalization efforts in goods must be supported by cooperation in other areas. In fact, the ASEAN members have established a variety of agreements and programmes in such fields as joint ventures, agriculture and forestry, customs, mechanisms for dispute settlement, finance and banking, intellectual property right, investment, minerals and energy, services, standards and conformance, tourism, transport and communications.[39] Though its primary focus is trade liberalization based on voluntary, unilateral reductions of barriers, APEC has embarked on new areas of cooperation in human resource development, technology, small- and medium-size industries, infrastructure and sustainable development.[40]

For Malaysia, the implications of its AFTA obligations are both more widespread and more immediate than those of GATT (Mahani, 1998, pp. 54-58), and this may be true for the other members of AFTA as well. First, AFTA tariff rates are much lower than GATT rates and its product coverage is larger. Second, the AFTA liberalization dateline is much earlier than GATT, requiring Malaysia to quickly prepare its industries for the year 2003. Third, with average ASEAN import duties rapidly falling, industrial transformation, including changes in the scale of production and industrial relocation, will be based on comparative advantage and cost effectiveness (e.g, the ASEAN Industrial Projects launched in 1980, the ASEAN Industrial

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[38] AFTA was created in 1992 with the objectives of removing trade barriers, expanding intra-ASEAN trade and enhancing the region's economic integration. The basic mechanism is the Common Effective Preferential Tariff (CEPT). According to this scheme, intra-ASEAN tariffs were to be reduced and non-tariff barriers removed over a 10-year period beginning on 1 January 1993. Originally, the CEPT scheme planned to reduce regional tariff rates to between 0% and 5%, involving 41,147 tariff lines, by 2008. That date was later advanced to 2003. The CEPT scheme provides for two tariff reduction schedules: the normal track and fast track. In the former, products with tariff rates above 20% will have their rates reduced to 20% by 1 January 1998 and subsequently from 20% to between 0% and 5% by 1 January 2003. Under the fast track, products with rates above 20% will have their rates reduced to between 0% and 5% by 1 January 2001, while those products at or below 20% will have their rates reduced to 0%-5% by 1 January 1998.

[39] Consult the ASEAN Secretariat home page.

[40] In the 1994 Bogor Declaration, APEC set the target of achieving free, open trade in Asia and the Pacific by 2010 for the developed member countries and 2020 for the developing ones. In 1995, the Osaka Action Agenda provided a guideline for implementing policy measures to reach this goal. In 1996 APEC leaders adopted the Manila Action Plan for APEC (MAPA), in which all members submitted their individual action plans (IAPs) to be implemented beginning in 1997, based on the unique modality of the unilateral announcement of liberalization commitments by individual countries. The IAPs consist of a comprehensive package of 15 areas, including both border and domestic measures, for three time horizons (short, medium and long terms).

Complementation Scheme and the ASEAN Industrial Joint Venture Scheme). These projects differ considerably from the region's past unsuccessful experiences with industrial projects aimed at achieving economies of scale and productive complementarities. Industrial structural changes arising from AFTA are closely linked with intra-industry and intra-firm trade. Multinational corporations have regional production networks which are largely based on the divison of labour within the region; this has been termed the Flying Geese pattern of development (Nasution, 1998, p. 9; Yeom, 1998, pp. 5-6).

VI. INSTITUTIONS

Industrial and trade success at the national level depends on the interplay of three sets of factors: incentives, capabilities and institutions. Incentives guide the allocation of resources. Capabilities arise from physical investment, infrastructure, human capital development and technological effort. Institutions facilitate capability building and production where purely market-based forces are deficient. How well the private sector takes advantage of economic incentives given by the State depends, to a large extent, on institutional development and the level of capability. It is known, however, that developing countries usually face the problems of uncoordination, duplication of functions and confusion regarding the hierarchy and decision-making responsibilities of those involved.

In recent years, the governments of the six countries studied have introduced important changes to institutions in charge of industrial and trade policies, at the federal, state and municipal levels. In Brazil, the powerful Ministry of Economic Affairs, Finance and Planning was broken into three ministries: Planning and Budget; Finance; and Industry, Trade and Tourism. The latter two ministries share the responsibility for foreign trade policy. The Secretariat of Foreign Trade (SECEX) within the Ministry of Industry, Trade and Tourism is the main body to implement and review trade policies, while the Chamber of Foreign Trade set up in 1995 is in charge of its formulation and coordination. The head of the Chamber is the Minister for Civilian Affairs of the Office of the President, and the ministers of Agriculture, Finance, Foreign Affairs, Planning and Budget, and Industry, Trade and Tourism, and the President of the Central Bank are members (Delorme Prado, 1998, p. 30). Argentina has created a new trade policy institution, the National Commission on Foreign Trade, which is in charge of analysing the effects of international trade on local producers and condacting the injury test on local production facing foreign competition or possible damage in the future (Casaburi, 1997, p. 36). In Korea, the present Kim Dae-Jung administration has proposed an organizational reform in which the jurisdiction of trade administration is concentrated under the newly established Ministry of Foreign Affairs and Trade. In addition, Korea has created a system for trade negotiation based on the United States Trade Representative (USTR) system (Yeom, 1998, pp.40-41).

In the countries studied, various industrial and trade organizations play an important role in the definition and implementation of policies. For example, the Indonesian Chamber of Commerce and Industry, or Kadin, forms the apex of over 200 industrial and trade organizations (Nasution, 1998, p. 45). In Korea, the most influential industry organization is the Korean Federation of Industry (KFI), whose membership consists of the major *chaebols*. In addition, individual firms, particularly general trading companies, make up the major interest groups in the

design of trade policy. Government research institutions (e.g., the Korean Development Institution, the Korean Industrial and Economic Institution and the Korean Institute of International Economic Policy) and the private sector also provide and analyse information related to trade policy (Yeom, 1998, p. 42).

For these institutions to be real vehicles for efficient public policy implementation, however, the programmes run by these new institutions must have a demand-driven approach with a feedback system or networking mechanism between the public and private sectors. Policies to be implemented by the governments should be well designed and then communicated to, fully understood by, and coordinated among all the concerned administrative agencies and private-sector agents. Quite often, what the State offers does not correspond to the kind and quality of services that private firms really need (Casaburi, 1997, pp. 49-50). In turn, a mechanism should be developed to reflect the interests of the private sector in the long-term objectives of trade and industrial policies.

Since the mid-1980s, Malaysia's Ministry of International Trade and Industry has enjoyed a close working relation with industry, and consultations with and feedback from the private sector have been regarded as an essential part of the policy-making process (Mahani, 1998, p. 47). In Chile, collabouration between governmental organizations such as ProChile and CORFO and private-sector institutions like the Association of Exporters of Manufactures (ASEXMA) has been instrumental in export promotion. CORFO is also administering a new scheme called the Support Programme for the Activities of Exporting Enterprises (PREMEX). The objective of this programme is to promote the exporting capacities of firms within the limits of WTO non-actionable subsidies. The programme is designed to help SMEs undertake studies to increase productivity and value added in manufactures and software exports (Macario, 1998, pp. 14-15).

On the other hand, there is also a concern in Chile that in order to enhance the utilization of a drawback system, for instance, the private sector must better understand its mechanism and the amount of paper work involved must be reduced, particularly for SMEs (Agosin, 1997, p. 32, Macario, 1998, pp. 2-7). Funds available for training human resources should be increased and fiscal incentives must be amplified for SMEs to become interested in such programmes (Agosin, 1997, p. 43).

Infrastructure —physical and human alike— plays a crucial role in elevating the systemic competitiveness of a country. Upgrading infrastructure requires that the Ministry of the Economy and/or Foreign Trade work closely with other ministries and agencies competent in this field, to ensure consistency and harmony in its policy implementation. The identification of deficiencies and bottlenecks and the mobilization of capital from both public and private sources to finance infrastructure projects require concerted efforts among these institutions.

With regard to the impact of the Anti-dumping Agreement on developing countries' exports, producers do not have adequate resources to appeal anti-dumping decisions by importing countries. Many of these producers are small companies without the legal expertise or financial

resources to prepare a case to present their points of view. Many are not even aware of the Anti-dumping Agreement and its very detailed provisions and requirements. Furthermore, industry associations in developing countries are not very strong lobbying groups, and some are not even active. Thus, the affected companies may not have a ready-made mechanism to support their case. The local institutional capacity including legal expertise, must be strengthened and expanded in order to provide more effective support (Mahani, 1998, p. 35).

As shown, appropriate institutions that are conducive to coherent industrial and trade policies encompass not only various governmental ministries and agencies, but also semi-public and private organizations in the areas of industrial and trade promotion, human capital formation, trade finance, investment, technology development, industry and trade associations and Chambers of Commerce. It is important to bring about a synergy among these distinct institutions in order that macro and micro policies are effectively coordinated and articulated. It is also of paramount importance that these institutions provide for networking and interaction between the private and public sectors, so that the private sector better understands and takes full advantage of government polices on the one hand, and so that their interests are clearly reflected in future policy implementation, on the other.

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